

Sedona Performing Arts & Conference Center Feasibility Study

PHASE TWO REPORT
JUNE 2004



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Feasibility Study**

Phase Two Report

Prepared for the

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Introduction

AMS Planning & Research (AMS) and Economics Research Associates (ERA) were retained by the City of Sedona to conduct a feasibility study for performing arts and conference facilities for Sedona. Phase One of the study, completed in January 2004, includes an assessment of the market potential for performing arts and conference facilities, analysis of potential user interest in a performing arts facility, research into program opportunities, and comparable case studies. Based on the research, recommendations were made for a performing arts center and conference facility comprising two theaters of 600-750 seats and 200-300 seats and a 25,000 sq. ft. conference center.

Following direction of City Council, Phase Two of the study was undertaken, and the following report summarizes the results of the findings. The contents of this report provide the following:

- Estimated Building Requirements for a Performing Arts and Conference Center
- Evaluation of Alternative Sites
- Analysis of Project Costs
- Operating Estimates
- Funding Analysis
- Economic Impact Forecast

Building Requirements

Our research, interviews and meetings with community leadership, local arts groups, visitor industry representatives and educators, as well as analysis of local meeting and performance venues and the market research, have provided us with many insights into the needs and desires for performing arts and conferences facilities in Sedona. Local performing arts organizations have projected at least 62 performance uses for a 600 to 700-seat theater plus rehearsals and loading time. Additional uses for the theater would include touring arts programs, meetings, conferences, film showings and public assembly events for businesses, government agencies, educational institutions, social organizations and others.

The user research indicates that there is demand for over 150 annual performance uses of a 200 to 300-seat venue. Local performing arts groups also forecast a strong demand for rehearsal facilities. A flexible “Studio Theater” or “Black Box” theater is recommended. It would be equipped with portable risers and seating to accommodate up to 300 for a theater performance, recital or other event. With the seating removed, the space would be suitable for rehearsals, classes and other activities requiring a large flat area of about 3,500 square feet.

Proposed Use Types

Before defining the physical spaces for a building, it is appropriate to establish some agreed-upon aims for the facilities. AMS believes that priority uses for a Sedona performing arts facility should provide for the following activities:

- Performances by local performing arts organizations
- Performances of the best available touring groups offering music, theater and dance
- Meetings, conferences and lectures

The chart below describes the potential uses for a performing arts facility and the technical and spatial requirements.

Figure 1: Proposed Uses

Proposed Uses	Performance Type	Stage Requirements
Choral and Instrumental Music	Recitals, chamber groups, choral	4 to 40 performers, excellent natural acoustics
Dance	Ballet, Jazz, Tap, Modern, Folk, Ethnic	Up to 20 dancers, Orchestra (in pit)
Chamber Opera, Musical Theater	Musicals and chamber opera productions	Up to 40 performers, orchestra up to 10 musicians (in pit)
Stage Plays	Full repertoire	Large range of cast sizes
Meetings	Wide range of assembly types	Minimal, lectern, table for panelists
Touring Events	Popular, jazz, folk, ethnic recitals, children’s theater, etc	Up to 30 performers, orchestra pit, scenery flying, easy loading
Film	16mm (optional 35mm and digital) projection, high quality sound system	Retractable screen

Design Features

The proposed performing arts facility should incorporate features that enable it to be flexible yet provide a first-class theater and concert environment for audiences and performers alike. The chart below indicates the spaces and features that should be incorporated into a facility.

The facility will be a “showcase” venue and will not incorporate set, prop or costume production spaces. The design should allow for multiple uses of ancillary spaces such as the lobby, green room, and practice rooms for meetings and special events. Public spaces should be equipped for the display of art with hanging rails and gallery lighting.

Figure 2: Design and Technical Features

Feature	Description
Theater	Generous stage dimensions; full fly system; proscenium arch with apron or thrust; orchestra pit.
Lobby	Allow minimum 5 sq. ft. per person; suitable for informal performances, meetings, receptions, wall hanging system for art exhibits
Dressing Rooms	At least 40 performers, include showers and toilets, large green room, separate dressing rooms for small theater, large chorus dressing rooms.
Shops	Not included
Offices	Accommodate small management staff of up to 5
Storage	Plentiful “live” storage and permanent storage for equipment, supplies and orchestra instruments
Box Office	Central box office for community events, manager’s office
Concessions	Built-in bars in lobby
Food Service	Catering service kitchen for receptions, social events, meetings, etc. (shared with conference facility)
Floors	Resilient floor for stage
Sound System	Reinforcement, stage monitor, intercom, sound effects, hearing impaired system
Stage lighting	Computer system (dimmer per circuit) for theater and concerts
Acoustics	Adjustable acoustics for music and speech using retractable drapes and reflectors (to adjust reflection and reverberation); acoustical shell on stage, acoustical separation of rooms to enable spaces to be used simultaneously. Very low ambient noise.
Handicapped access	Required throughout building for performers, technicians, staff and public
Restrooms	To serve maximum audiences in lobby and front of house. Restrooms to serve administrative and technical staff offices and rehearsal rooms.

Space Requirements

The table below summarizes the required spaces for a performing arts facility to meet the needs of local performing arts groups, touring artists, and community use. The **650-seat theater** is proposed as a multi-level auditorium with approximately 260 seats in the orchestra level, 173 seats in a raised “parterre” area, and 217 on a balcony. Seating that can be moved from a storage area adjacent to the forestage lift and under the orchestra level to a position over a closed orchestra pit would allow a few additional seats. Because of the high level of use anticipated, the facility must include features such as a full fly system, ample “live” storage, and an apron stage configuration.

The **Studio Theater** is proposed to be a flexible form space with a maximum seating capacity of 300. The room would have the technical capability and ambiance to accommodate theater, music and dance performances, rehearsals and many other events requiring a flat floor.

Seating and platform risers systems would be provided to allow the room to be quickly adjusted to accommodate the varied uses. An overhead wire grid or galleries for lighting and scenery would allow maximum flexibility.

Public Spaces (lobbies, restrooms and lounges) are proposed to be adequate in area to allow for special events and functions beyond support for the theater intermissions. Social and Civic events can be hosted in these spaces both enhancing their use and providing revenue. The public spaces will be in close proximity to the conference center to allow shared use.

The **Conference Center** is calculated as a total of 25,000 sq. ft. It includes a **large conference room** to accommodate up to 920, a **small conference room** for up to 364, and 7 **breakout rooms** that will serve up to 45 persons each. An **outdoor function area** of 3,500 sq. ft. is proposed.

A total gross building program of about 74,000 square feet has been estimated. The program, summarized in Figure 3 and Figure 4, includes all necessary spaces for circulation, mechanical systems, wall thickness, etc. A detailed schedule of spaces is provided in the Appendix.

Figure 3: Performing Arts Building Requirements

Space	Components	Gross Area (sq. ft.)
Large Theater	Auditorium for 650 with balcony and parterre seating, stage (at least 40' deep by 80' wide), dressing rooms of various sizes, control rooms, orchestra pit, projection room	14,200
Studio Theater	A flat-floor room with portable risers, control room, dressing rooms	6,100
Stage/Performer Support	Dressing rooms, Chorus rooms, Rest rooms/showers, Green Room	5,200
Public Spaces	Foyer/Lobby, Concessions, Restrooms, House Manager office, Storage	8,000
Administration	Reception & General offices, Conference room, Box Office	1,500
Rehearsal	2 rooms, storage, recording room	4,000
Circulation, mechanical	HVAC, Stairs, hallways, etc.	10,000
TOTAL		49,000

Figure 4: Conference Center Building Requirements

Sq. Ft.	Seating Capacity/Format				
	Theater	Classroom	Banquet	Conference	U-Shape
10,125	920	506	750	338	289
4,000	364	200	296	133	114
500	45	25	37	17	14
500	45	25	37	17	14
500	45	25	37	17	14
500	45	25	37	17	14
300	27	15	22	10	9
300	27	15	22	10	9
300	27	15	22	10	9
17,025	1,545	851	1,260	569	486
4,256	25% for service and circulation (including restrooms & kitchen)				
3,500	Lobby Area (could be shared with theater)				
24,781	Total Indoor Space				
3,500	Outdoor Function Space				

Note: Accommodates peak yearly event of dinner for 750

Note: Does not include Auto Court for Drop off or Parking

Parking

Optimally, performing arts facilities require one parking space for every 2.6 seats plus an allowance for performers and staff, which indicates a total of about 400 parking spaces. For the Conference Center Gallery, based on 1,000 visitors and allowing one car for three visitors and staff suggests a requirement for about 350 spaces. The total requirement therefore will be a maximum of about 750 parking spaces within 500 to 1,000 feet of the venue, about 5 acres. Detailed parking studies should be completed for the selected site to identify the potential to share with existing parking or on-street parking.

Site Requirement

The proposed facility of 74,000 square feet would, if built at a single location, occupy a footprint of at least 50,000 square feet. Allowing for setbacks, exterior circulation and landscaping, a minimum practical site would be about 75,000 sq. ft. or about 1.75 acres. Parking will require an additional 5 acres, for a total site requirement of up to 7 acres or more, depending on design.

Site Evaluations

With the assistance of Sedona City Planning staff, AMS identified several sites throughout the city. A total of 30 parcels were identified. A preliminary evaluation of the suitability of each to accommodate the program reduced the number to seven qualified sites. (The sites are illustrated in Figure 5).

The list below enumerates several sites that met the initial size criteria and all can accommodate the entire program for a conference and performing arts center. All are vacant, except one, the Forest Service site, which has some small historic buildings. Although engineering research has not been done for this study, none of the sites appears to present significant impediments to construction such as steep slopes, environmental hazards or geo technical concerns.

Medical Center (1) – located near intersection of Highway 89A and Foothills Drive South

This site comprises 5 parcels of vacant land surrounding the Health Care facility and totals about 34.5 acres in all. Officials at Northern Arizona Health Care, owners of the property, report that they are currently planning for to develop healthcare-related facilities there.

The site offers excellent visibility from and access to Hwy 89A. Views from the site to the hills are outstanding. The proximity to the medical center offers some interesting possibilities for hosting medical conferences. Acquisition cost would be high since the owners are seeking to develop the land to its highest and best use.

Cultural Park (2) – Red Rock Loop Road at Hwy 89

This site is owned by the Cultural Park, a non-profit organization. The owners of the Park have experienced extreme financial difficulty since opening and the site has been sold to a developer and is currently in escrow. The Park applied to the City to build a hotel and related commercial facilities that was denied as it was not allowed in the general plan. Cultural and education facilities are allowed and it is likely a small conference facility would also be an allowed use.

Not considering the financial situation, the Cultural Park site offers many advantages for a new indoor performance facility. The site is more than adequate for the program and much of the existing parking could be utilized. Access from Hwy 89A is very good. The proximity of the Yavapai College Center offers potential for joint programming with both the conference and performing arts center. This site is the most distant from hotels.

Red Rock Loop (3) – Upper Red Rock Road at Highway 89 (across from the Cultural Park and RR High School)

This site is three parcels totaling 7.7 acres and is privately owned. The location offers many of the same advantages and disadvantages of the nearby Cultural Park. It is zoned for commercial use and would therefore be expensive to acquire.

Fire Station (4) – 2820 W Highway 89A near Andante Drive

Two parcels totaling 6.3 acres, privately owned. This site offers excellent access to and visibility from Hwy 89A and is located nearer to the city's hotels and retail/commercial amenities than those to the west. It is zoned for commercial use and would likely be costly to acquire. The owners have not indicated any interest in selling this property.

Sombart Lane (5) – Highway 179 (behind Circle K market)

One parcel of 5.4 acres, private ownership. Access to this site, which is located up a hill behind the Circle K market, is poor and it has no visibility from passersby on Hwy 179.

Brewer Road (6) – 325 W Hwy 89A

6.5 acres, private ownership. This site has no established direct access from Hwy 89A, although they do have a legal right of access. Considering proximity to hotels and retail shops, it is perhaps the best of the sites on the list.

US Forest Service (7) – Southwest of the “Y” intersection of Hwy 89A and 179

While this federally owned site totals 21.3 acres, only about 6-7 acres are developable. It currently accommodates the USFS headquarters but is scheduled to be vacated and may auctioned in Fall 2004. The property is not directly accessible to Hwy 89A or 179 and is not visible from either. There are historic buildings on the site that will need to be preserved or relocated. Proximity to Los Abogados and Tlaquepaque is an advantage.

Evaluations

Each of the potential sites has been evaluated with respect to their ability to accommodate the proposed program within the constraints of current land use regulations, availability and the desirability of locating a performing arts and conference center at each location. Key criteria for the evaluation were as follows:

1. Visibility

Sites that are located in existing vehicular and pedestrian high traffic areas are desirable. What is proximity of the site to major roadways and highways and the ability to be seen from these roads? The Highway 89A corridor is highly preferred for its easy access from almost all areas of Sedona. Highway 179 offers fewer sites and more difficult access, although realignment may be imminent as a result of Arizona Department of Transportation studies currently being done.

2. Ease of Acquisition

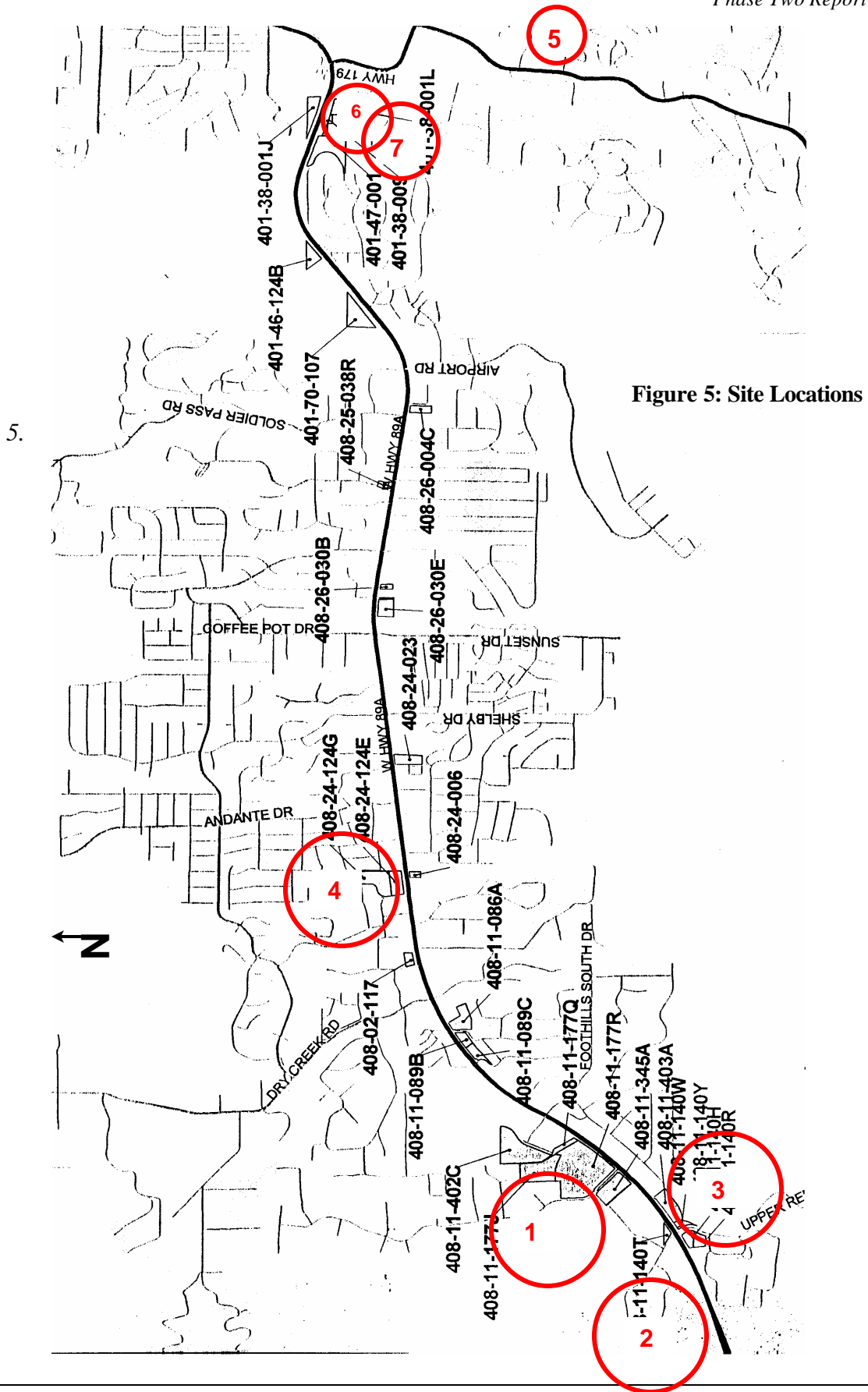
Includes both price of site acquisition and projected degree of difficulty in negotiating a sale.

3. Development Costs

Overall project costs will be affected by the costs of not only acquiring a site, but also clearing or demolition if required, grading, renovations, etc. The presence of environmental hazards and cultural resources needs to be considered. Certain high visibility sites may involve higher cost construction.

4. Vehicular Circulation

The existing circulation system in Sedona has a certain defined hierarchy or organization and traffic flow. There are potential impacts to this system from the addition of any new destination with access requirements such as pick-up and drop-off for tour groups, shuttle service, school tours, etc. Delivery and loading ingress/egress also need to be considered.



Proximity/Accessibility of Nearby Amenities

Proximity to amenities has a mutual benefit. The success of a conference center is closely allied with immediacy to hotels. Cultural facilities have strong potential to augment and support the success of nearby restaurants and retail shops.

6. *Parking*

Availability of existing parking, either on the street or in parking lots. Parking for cultural and conference facilities can often be shared with retail parking since peak use times differ, though it is preferable that dedicated parking be available for daytime programs at conference centers.

7. *Capacity of Site to Contain the Program*

The size, proportion and organization of the site determine its relative ability to support the program, or at least the critical components.

8. *Compatibility with surroundings*

This reflects the less tangible qualities associated with the “fit” between a performing arts or conference facility, the site and its surroundings. It includes qualities such as the significance of the site to the community and the ability for the site to contribute to the facility in becoming unique and “special.” Would a new building impact existing views?

9. *Expansion Potential*

The capacity of the site to allow for future expansion. This will be especially true for a conference center which has a high likelihood of expansion if successful, as its meeting room components are more easily added incrementally than theater space.

10. *Partnership Potential*

Potential collaborative relationships come with some of the identified sites. This evaluation assesses the suitability of potential partners in both the short and long-term time frames.

The consultants’ evaluation of the sites is shown in Figure 6.

Recommendations

It is not the purpose of this study to select a single site for the conference or performing arts center and the consultants believe each of the sites is worthy of consideration. The **Cultural Park** site is highly desirable and ranks first in the evaluation (especially for the performing arts center). It offers an affordable location (assuming the Cultural Park continues operation and a deal can be arranged) and can reinforce the activities at the park (and vice versa). Parking is available. Proximity to the Yavapai College Center and Red Rocks High School is another advantage. The location is, however, distant from hotel and commercial amenities.

The **Medical Center** site, ranked second, is also an attractive option because of its prime location and potential for associated use with Medical Center activities such as medical conferences. It is closer to hotels and retail services than the Park or Red Rock Loop sites but still not within walking distance. The site is proposed for development of health care-related facilities.

Virtually tied for third, the **Red Rock Loop** and **Fire Station** sites offer many of the advantages of the Medical Center site. They are both privately owned and would be costly to acquire. The Fire

Station site is better situated with better visibility from Hwy 89A. The consultants are aware of no development proposals for these sites, which are zoned for commercial use.

The ***Brewer Road, Sombart Road, and Forest Service*** sites are ranked close together considerably lower than the others. The first, while highly visible from Hwy 89A, has no direct access from this road. The nearby busy intersection of Hwy 89a and 179 would pose difficulties in adding a new major intersection to enable direct access. The Forest Service site is also not easily accessed from the highways and moreover lacks visibility from these roads. It is, however the closest to hotels and retail shops among the sites being considered. The Sombart Road site also lacks access and visibility from the highways.

Figure 6: Site Evaluations

Site	Size (acres)	Visibility	Acquisition	Dev't Cost	Vehicle Circ'n	Amenities	Parking	Capacity	Compatibility	Expansion	Partnership	Score
2. Cultural Park	~10	0	+	+	+	0	+	+	+	+	+	18
1. Medical Center	34.5	+	-	0	+	0	+	+	0	+	0	14
4. Fire Station	6.3	+	-	0	+	0	0	0	0	0	0	11
3. Red Rock Loop	7.7	+	-	0	+	-	0	0	0	0	0	10
6. Brewer Road	6.5	0	-	0	0	0	0	0	0	0	0	9
5. Sombart Lane	5.4	-	-	0	0	0	0	0	0	0	0	8
7. Forest Service	7.0	0	-	-	-	-	0	0	-	+	0	6
Rating Assigned Score												
+												
0												
-												
2												
1												
0												

As noted above, it is not the consultant's charge to select a site. As planning for the project progresses, the optimum site will emerge based on many factors, such as availability, the terms of acquisition, programming or operating partnerships, and fundraising considerations. These factors, which cannot be foreseen at this time, will impact the decision on which site offers the best opportunity.

Cost Estimate

The estimate of probable construction cost is based on research into comparable facilities located in the western U.S. and review of local construction costs. Comparison projects have been indexed to reflect the construction cost at the project location and escalated to May 2004 (see Figure 7). The research indicates that construction cost per square foot of similar facilities ranges from \$253 per square foot to \$417 per square foot, depending on quality level, size of project and project scope.

Figure 7: Comparable Project Construction Costs

PROJECT	LOCATION	YEAR	SIZE	SEATS	2004 \$/SF
Tempe Arts Center	Tempe, AZ	2003	88,478	850	\$417
Mesa Arts Center	Mesa, AZ	2002	206,517	2,450	\$322
Dean Leshner Center for the Arts	Walnut Creek, CA	1990	78,000	1,100	\$335
Rancho Cucamonga	Rancho Cucamonga, CA	2004	90,000	500	\$352
Madison Theater	Santa Monica, CA	2005	32,300	504	\$253
Skagit College	Mount Vernon, WA	2003	32,000	700	\$340
Chandler / Gilbert Community College	Chandler, AZ	2001	30,568	300	\$255
Stevie Eller Dance Theater	Tucson, AZ	2002	32,000	300	\$281
AVERAGE					\$319

The scope for this project primarily consists of theater space and conference center space. Based on historic cost data escalated to current market costs, per square foot costs for this project range from \$210 for administrative and conference center spaces to \$425 for the theater space. The variation in construction costs is related to the design and functional needs of each area within the facility.

A cost estimate for the development of the project has been prepared according to the following assumptions and guidelines:

Cost Basis

The estimated costs are based on 2004 construction costs escalated to May 2007, a presumed month when the project would begin construction, the gross floor areas for the building, and application of order-of-magnitude pricing established through analysis of comparable projects. A moderate architectural quality has been assumed for the building. A construction contingency of 5% has also been included. Taxes are included in the square foot cost estimates.

Professional Fees & Expenses (soft costs)

An allowance of 15% of the construction cost has been made for fees for an Architectural and Engineering consultant team normally employed on a project of this type, including architects, structural, electrical and mechanical engineers, specialty consultants (theater, audio, acoustics), as

well as a cost consultant. An allowance of 5% of the construction cost has been made for fees for a construction management consultant frequently employed on a project of this type for management of the project and cost estimating services. An allowance of 10% of total professional fees is included to cover reimbursable expenses.

Furnishings, Fixtures & Equipment (FF & E)

Based on comparable projects an estimate has been made for a normal complement of fixed and movable furniture and equipment including operable partitions, public and office furniture, security equipment, computer and phone cabling, etc.

Land Acquisition Costs

Costs for acquisition of buildings and/or land have not been estimated.

Owner's Costs

The owner normally provides the following items during planning, design and construction. These items have not been included in the cost estimate due to the wide range of options available to cover these kinds of expenses and in many cases services can be provided pro-bono. These services include:

- Financing costs
- Fundraising fees and expenses
- Legal fees and expenses
- Owner's staff and associated management costs
- Pre-opening staffing and operational expenses
- Presentation models and renderings

Other costs normally provided by the owner have been included in the estimate based on projects of similar type; however, these costs are subject to change according to project specific requirements:

- Testing and inspections
- Plan Review and Permit Fees
- Printing Costs
- Impact Fees

Restricted Reserve

A Restricted Reserve has not been included in this cost estimate, however, a reserve of 3% - 5% of total construction costs is typically included for owner's discretionary spending for unforeseen costs not related to the construction contingency.

Cost Estimate

The base construction cost estimate shown below is for new construction of a typical moderate quality level facility. No allowance has been made in the estimate for site acquisition or for mitigations for cultural resources, geotechnical hazards, hazardous materials or environmental impacts.

The theaters, public spaces, support spaces, rehearsal, and conference center spaces described in this report encompass a total of 73,781 square feet. Based on the research, the estimated base

probable construction cost for would be \$20,592,000. Site development and outdoor function spaces are estimated at \$3,187,500. Furnishings and equipment are estimated at \$2,168,800. Total construction costs are estimated at \$31,332,000 including escalation to May 2007 and a 5% construction contingency. The soft cost estimate of \$8,033,000 includes professional fees for architects, structural, electrical and mechanical engineers, theater and acoustics consultants in addition to project management and construction management fees. Estimates for owner costs such as testing and inspection, plan review and permit fees, printing and impact fees are also included in the soft cost estimate. In total, the estimated capital cost of the project is projected to be a little more than \$39.3 million. Phased development could reduce this estimate; unknown factors such as site conditions or geo-technical requirements and unforeseen market conditions could cause this estimate to increase.

As the project moves forward, more detailed site analyses will be conducted and design concepts determined to refine these estimates. A professional cost consultant familiar with similar types of buildings should be consulted to assist with estimates of construction costs.

Figure 8: Project Cost Estimate

(Prepared by Kitchell CEM, Cost management consultants)

Space	Program	Cost/SF	Total Cost
650 Seat Theater	14,200	\$390.00	\$5,538,000
300 Seat Studio Theater	6,100	\$350.00	\$2,135,000
Stage / Performer Support	5,200	\$260.00	\$1,352,000
Public Spaces	8,000	\$295.00	\$2,360,000
Administration	1,500	\$195.00	\$292,500
Rehearsal	4,000	\$315.00	\$1,260,000
Circulation, Mechanical	10,000	\$245.00	\$2,450,000
Conference Center	24,781	\$210.00	\$5,204,010
SUBTOTAL BUILDINGS	73,781	\$282.50	\$20,591,510
SITE DEVELOPMENT			
Outdoor Function Spaces	3,500	\$65.00	\$227,500
Sitework Development			\$2,960,000
TOTAL SITE DEVELOPMENT			\$3,187,500
FURNITURE, FIXTURES & EQUIPMENT			
Theater And Performance Equipment			\$1,624,000
Gc Overhead & Profit On Equipment			\$194,880
Total Theater & Performance Equipment			\$1,818,880
Other Furniture / Fixtures / Equipment			\$350,000
TOTAL F F & E	73,781	\$29.40	\$2,168,880
SUBTOTAL CONSTRUCTION			\$25,947,890
MARKUPS			
Escalation 15.00%			\$3,892,184
Taxes (2) 6.05%			\$0
TOTAL MARKUPS			\$3,892,184
SUBTOTAL CONSTRUCTION AND MARKUPS			\$29,840,074
CONSTRUCTION CONTINGENCY			
Construction Contingency 5.00%			\$1,492,004
TOTAL CONTINGENCY			\$1,492,004
TOTAL CONSTRUCTION COSTS	77,281	\$405.43	\$31,332,077
SOFT COSTS			
A/E Fees 15.00%			\$4,699,812
A/E Reimbursables			\$469,981
Construction Manager 5.00%			\$1,566,604
Cm Reimbursables			\$156,660
Testing / Inspection / Geotechnical 1.50%			\$469,981
Plan Review And Permits 1.50%			\$469,981
Printing			\$125,000
Impact Fees			\$75,000
SUBTOTAL SOFT COSTS	77,281	\$103.95	\$8,033,019
RESTRICTED RESERVE			
Restricted Reserve (1) 0.00%			\$0
TOTAL RESTRICTED RESERVE			\$0
TOTAL PROJECT COSTS	77,281	\$509.38	\$39,365,096
Notes:			
1. Restricted Reserve To Be Determined By Owner Typically In Range Of 3% To 5%.			
2. Taxes Included In Square Foot Cost Estimates.			

Management and Operating Estimates

This section of the report provides a preliminary operating estimate for a performing arts and conference center as described above. The estimate is based on a free-standing building comprising a 650-seat theater, a 300-seat studio theater, a 25,000 sq. ft. conference facility, and accompanying support and administrative spaces.

The following is a list of general assumptions that accompany the projections:

- Facility will be owned and managed by an independent non-profit organization
- Facility will be debt free on opening and tax exempt
- All estimates are made assuming a “base-stable” year of operations; assumed to be the third year after opening
- No allowance has been made for pre-opening costs that will be required during the planning and development. Such costs may include personnel and fundraising expenses. The annual funding requirement for the first two years of operation might be 10% to 25% higher than the base stable year.
- The estimates do not include programming costs for producing or presenting events, arts education, gallery exhibits or other programs, although basic facility administration and overhead costs are included. It is assumed that programming costs will be separately budgeted and funded from fees or admissions, or through fundraising.
- That the center is professionally managed by experienced personnel with specific prior success in “opening” a center
- That the center is well marketed beginning at least two years prior to opening and that marketing sufficient to maintain a reasonable level of business continues after opening
- That the center is built to a level of quality and located according to the assumptions set forth in this study
- All estimates are in 2004 dollars.

It should be noted that the projections represent a forecast of the most likely results of operation and are based on current conditions and forecasts of use. It must be recognized that the program of events presented below is not an exact forecast of activity, given that the building will not be operational for several years.

To facilitate decision-making with respect to the financial aspects of the project, operating estimates are provided for the performing arts center and conference center as independent organizations. At the end of this section, a commentary is provided on potential savings if the two facilities were operated under a single management.

Performing Arts Center Estimates

Governance, Management and Staffing

It is assumed that a private non-profit corporation will operate the center. A board of directors would govern this organization.

A five-person professional management team would be employed to operate the center:

Executive Director	Technical Coordinator
Operations Manager	Administrative Assistant
Marketing and Development Coordinator	

Part time and contract personnel would be employed as stage crew, ushers, box office workers, and clerical staff.

The theater and facilities would operate as rental venues and management would not produce or present events, classes or exhibits, but might enter into agreements with independent presenting, educational or producing organizations. Local non-profit organizations would have priority in scheduling their concerts, productions, classes and rehearsals, paying rent to offset operating costs. The facility would also be rented whenever appropriate to commercial promoters and for meetings, receptions, and other private events.

Operating Estimate

Revenue and Utilization

Based on the Phase One research and analysis 204 use days have been projected for the base year of operation in the 650-seat theater (Figure 9). Use of the Studio Theater is estimated at 270 days (Figure 10)

Figure 9: Estimated Utilization (Use Days) – 650-seat Theater

Identified Users*	77
Other Uses	
Other Non Profits	50
Presenting Series	13
Commercial / Private	12
TOTAL Other Uses	75
TOTAL Event days	152
* Red Rocks Music Festival, Sedona Jazz on the Rocks, Chamber Music Sedona, Canyon Singers, Sedona Showstoppers	

Figure 10: Estimated Utilization (Use Days) - Studio Theater

Local Organizations	
TOTAL Local Organizations*	210
Other Uses	
Other Non-Profits	50
Events	10
TOTAL Other Uses	60
TOTAL Use Days	270

*Shakespeare Sedona, Canyon Moon Theatre, Verde Valley Chamber Orchestra., Sedona Concert Band, Opera League of N. Arizona, El Valle Artists Assn.

Income from Operations

Rental income from performances and events will provide the primary source of income. Rental, labor and other fee rates have been established after review of similar facilities in the region and discussion with major potential users. Rental rates for the 650-seat theater range from about \$650 for a local non-profit arts organization rehearsal to \$1,300 for a commercial rental. The Studio Theater rental fees range from \$200 for a rehearsal to \$600 for a commercial rental. Other spaces in the building such as the lobby, meeting rooms and green room will also provide rental revenue. These are detailed in the Appendix.

A rental would include basic personnel. But additional labor charges have been established to include a slight mark-up to cover additional event-staff time spent in scheduling, attending meetings, coordinating volunteer ushers as well as other administrative duties performed by non-event staff that are directly related to a rental client (scheduling, contracting, billing, etc.).

Concession income has been estimated to produce about \$19,600 annually. Box Office fees (phone order, printing, credit card) will generate about \$44,700 annually.

A Facility Surcharge of \$1.50 charged to patrons for each ticket will provide about \$224,000 in income. This fee is intended to cover facility maintenance and operations.

Expenses

Administration

Estimates for administrative overhead are based on comparable facilities. The salaries, taxes and benefits for billable part-time staff have been included to offset revenues.

Utilities and Maintenance

Utility costs for heating, ventilation, trash and water have been estimated based on review of comparable facilities. Custodial services and maintenance of electrical, security and mechanical systems would be provided by contractors or by in-house personnel.

Capital Reserves

No allowance has been made for capital reserves. It is assumed that the building will be debt-free upon opening. A reserve allowance of one and one-half percent of the construction cost would be an acceptable annual allowance for repairs and renewal.

Performing Arts Center Summary

A summary statement of the operating projection for the base year, three years after opening, is shown in Figure 11. The net annual operating deficit before allowing for contributed income is estimated to be \$413,200, or 40% of the total operating budget. Based on experience at similar centers, expenses for the first two years of operation may be higher by about 10 to 15 percent and revenues lower by 5 to 20 percent. Fundraising, endowment earnings and program sponsorships will offset the annual operating shortfall. (Fundraising staff and expenses have been included in the estimates.) Operating costs following the base year will stabilize and rise at a rate equal to inflation. See Appendix for details of the proposed operating budget and rental rates.

Figure 11: Performing Arts Center Operating Estimate

(Base Year – 3 years after opening)

REVENUE	
Theater Rental Income	\$251,133
Food and Beverage <i>(except commercial)</i>	\$19,600
Box Office <i>(charged to renter)</i>	\$44,700
Technical Crew Charge <i>(Gross revenue)</i>	\$47,400
Misc. Fees <i>(charged to renter; security, equip't, etc.)</i>	\$21,700
Facility Surcharge <i>(paid by patrons)</i>	\$223,680
TOTAL REVENUE	\$608,213
EXPENSES	
Personnel	
Administrative Staff	\$323,700
Stage/Event Crew	\$53,680
House Management (PT)	\$32,100
PT Benefits (8%)	\$11,200
<i>Total Theater Personnel</i>	<i>\$420,680</i>
Administrative Overhead	
Supplies/Services	\$9,000
Development Expense	\$30,000
Travel/Entertainment/Memberships	\$3,000
Telephone	\$6,000
Postage	\$3,600
Equipment	\$6,000
<i>Total Administrative Overhead</i>	<i>\$57,600</i>
Box Office	
Box Office Staff (PT)	\$20,520
Ticket Printing	\$2,000
Supplies	\$4,000
<i>Total Box Office</i>	<i>\$26,520</i>
Building & Operations	
Occupancy cost	\$368,000
Landscape Mtce	\$30,000
Theater Equipment R&M	\$10,000
Insurance	\$60,000
<i>Total Operations</i>	<i>\$468,000</i>
Total	\$972,800
Contingency 5%	\$48,600
Total Expenses	\$1,021,400
TOTAL REVENUES	\$608,200
OPERATING RESULT	\$(413,200)

Conference Center Estimates

The operations model for the conference center is based on assumptions from the Phase One market study which indicated the level of demand and pricing for events (by type) and industry research on operating costs for similar conference centers. A summary of the demand analysis is located in the Appendix. It is important to note that the operation of a center in Sedona may be somewhat different from national averages, because local costs and revenues vary.

This first table illustrates what attendees at such a facility spend by category and the average duration of the event, not including set up and tear down. The average daily expenditure as noted in a study for the IACC (International Association of Conference Centers) is \$67.81 (2003 dollars). The average conference attendance is 61 for corporate conferences and 90 for association events. Our sense is that this is a low average for Sedona events but we use this figure for analytical consistency. Corporate conference duration, 3.2 days, is longer than association conferences which average 2.2 days. This total does not include dinners, special lunches or breakfasts, lodging or retail expenditures by attendees in the community.

Figure 12: Conference Expenditure, Size, Duration, & Expenditure Distribution

			Corporate Conference	Association Conference	Corporate Conference	Association Conference
Average Daily Expenditure		\$67.81	-	-	-	-
Average Attendance		-	61	90	-	-
Average Meeting Days		-	-	-	3.2	2.2
Expenditure Distribution						
Category	Percent	Individual	Event Day	Event Day	Total Event	Total Event
Conference	8%	\$5.42	\$331	\$488	\$1,059	\$1,074
Lunch	17%	\$11.53	\$703	\$1,037	\$2,250	\$2,282
Coffee Breaks	20%	\$13.56	\$827	\$1,221	\$2,647	\$2,685
Meeting Room	44%	\$29.84	\$1,820	\$2,685	\$5,824	\$5,908
Audio Visual	4%	\$2.71	\$165	\$244	\$529	\$537
Other	7%	\$4.75	\$290	\$427	\$927	\$940
Total		\$67.81	\$4,136	\$6,103	\$13,237	\$13,426

It is our expectation that this facility will also be used by local Sedona groups for meetings, social functions and large “consumer” events such as art, antique, sportsman, or jewelry shows.

Utilization and Attendance

In total, the estimated facility usage for a base year of operation (when operations stabilize three years after opening) is illustrated in Figure 13 below.

A few points to note:

- Event set up and tear down for some types of events is included
- We use three years as it usually takes about three years for a facility to ramp up to full utilization
- There will be some overlap in facility usage. In other words, the facility may host more than one event or meeting on a single day.

**Figure 13: Projected Event Days by Event Category
(Year 3)**

Category	Event Days	Set-up	Total Days	Estimated Use
Corporate	3.2	2	5.2	338
Association	2.2	2	4.2	50
Consumer	2.5	1.5	4	32
Social	1	0	1	10
Local Meetings	1	0	1	104
Total				534

Figure 14 shows an estimate of attendance at the facility, a total of 63,184 by year three. The vast majority, 45,000, will be for consumer or social events; over 12,600 will attend conferences. It is important to note that this figure includes only the actual conference attendees and does not include spousal or family attendance, which in Arizona is typically above industry averages, as the destination is desirable.

**Figure 14: Total Attendance by Event Category
(Year 3)**

Category	# of Event Days	Average # of Attendees	Attendance
Corporate	3.2	61	12,688
Association	2.2	90	2,376
Consumer	2.5	2,000	40,000
Social	1	500	5,000
Local Meetings	1	30	3,120
Total			63,184

Revenue and Expense Estimate

The tables that follow outline the assumptions for the revenues and expense estimates for the operating pro forma that appears at the end of this section.

As illustrated in Figure 15, the majority of the rental fee revenue, at \$379,000 in year 3 comes from corporate meetings.

Figure 15: Projected Facility Rental Fees by Event Category
(Year 3)

Category	Events	Fees	Total Fees
Corporate	65	\$5,824	\$378,564
Association	12	\$5,908	\$70,891
Consumer	8	\$5,000	\$40,000
Social	10	\$1,500	\$15,000
Local Meetings	104	\$50	\$5,200
Total			\$509,655

As shown in Figure 16, the majority of the food and beverage revenue comes from corporate meetings. This category only includes breakfast and lunches, not dinners.

Figure 16: Food & Beverage Expenditures by Event Category
(Year 3)

Category	Events	Spending	Total F&B Sales
Corporate	65	\$4,898	\$318,338
Association	12	\$4,968	\$59,613
Consumer	8	\$3,000	\$24,000
Social	10	\$1,500	\$15,000
Local Meetings	104	\$45	\$4,680
Total			\$421,631

Figure 17 shows the estimated conference services expenditures specific to conferences that include all of the services and non-equipment needs provided for the conference operations by center staff.

Figure 17: Conference Services Expenditures by Event Category
(Year 3)

Category	Event Days	Spending	Total F&B Sales
Corporate	208	\$1,059	\$220,256
Association	26	\$1,074	\$28,357
Total			\$248,613

The next category is equipment rental expenses. This primarily includes audio-visual and other presentation related equipment.

Figure 18: Equipment Rental Expenditures by Event Category
(Year 3)

Category	Event Days	Fees	Total Equipment Rental Sales
Corporate	208	\$529	\$110,128
Association	26	\$537	\$14,178
Consumer	8	\$500	\$4,000
Social	10	\$250	\$2,500
Local Meetings	104	\$50	\$5,200
Total			\$136,006

The facility, as we are projecting it in this report, will not have a full service restaurant but will host catered events. We assume that the center will receive a 5% commission for the business and use of the prep kitchen and that one dinner event for the corporate and association groups will take place in the facility.

Figure 19: Catering Commissions by Event Category
(Year 3)

Category	Catering Expenditures	Gross Expenditure	Commission
Corporate	\$46.64	\$591,768	\$29,588
Association	\$46.64	\$110,817	\$5,541
Social	\$75.00	\$375,000	\$18,750
Total		\$1,077,585	\$53,879

This last revenue category (Figure 20) collects the entire incidental expenditures not included in the aforementioned categories.

Figure 20: Other On-Site Expenditures by Event Category
(Year 3)

	Event Days	Fees	Total Other On-Site Expenditures
Corporate	208	\$927	\$192,724
Association	26	\$940	\$24,812
Consumer	8	\$250	\$2,000
Social	10	\$125	\$1,250
Local Meetings	104	\$25	\$2,600
Total			\$223,386

The Figure 21 shows our expectation for staff costs at the facility. The benefit level is 36% of salary (similar to industry standards).

Figure 21 Facility Staffing, Salary, and Benefits
(Year 1)

Position	Number	Salaries	Benefits	Total Salary & Benefits
Manager	1	\$69,361	\$25,317	\$94,678
Sales & Marketing	1	\$40,167	\$14,661	\$54,828
Conference Services	4	\$137,400	\$50,151	\$187,551
Maintenance	3	\$75,000	\$27,375	\$102,375
Admin	2	\$50,000	\$18,250	\$68,250
Total	11	\$371,928	\$135,754	\$507,682

By Year 3, with inflation, the total of salary and benefits would be \$538,600.

Other key expense assumptions are listed below for the third year of operation:

Administrative	\$31,837
Marketing	\$132,613
Utilities	\$33,949
Maintenance	\$198,919
Replacement Reserves	5% of gross revenue
F & B related labor	35% of F & B sales
F & B related cost of goods sold	35% of F & B sales

The operating statement on the following page incorporates all of the information from the preceding tables. The 2 years before opening and the first two years of operation are not shown. Pre opening expenses will be similar to base year operations with no offsetting revenues. An estimate for the first two years is provided in the Appendix.

Conference Center Summary

Figure 22 shows an operating estimate for a base stable year of operation when the center will become profitable, with a net revenue of \$282,462. An Appendix to this report provides a ten year estimate which indicates operating losses in the first two years of operation totaling about \$483,000.

**Figure 22: Projected Conference Center Operating Statement
(Year 3)**

Revenues	
Facility Rent	\$509,656
Food & Beverage	\$421,631
Conference Services	\$248,612
Equipment Rental	\$136,006
Commissions	\$53,879
Other	\$223,386
Total Gross Revenue	\$1,593,170
Operating Costs	
Salaries/Benefits - Facility	\$538,600
Food & Beverage Labor	\$147,571
Food & Beverage COGS	\$147,571
Administrative	\$31,827
Utilities	\$33,949
Maintenance	\$198,919
Replacement Reserves	\$79,658
Marketing	\$132,613
Total Operating Costs	\$1,310,708
Net Operating Income	\$282,462

Sources: PKF Consulting, International Association of Conference Centers (IACC), The Hospitality Research Group, International Association of Assembly Managers (IAAM), U.S. Bureau of Labor Statistics

Combined Operations

The base year proforma estimates for the performing arts center indicate an annual operating loss of \$413,200 and for the conference center a net income of \$282,462. Combining these estimates would produce an annual operating loss of \$130,738 in the third year of operations.

There would be certain savings in operating costs that would be realized if the facilities were combined. A simplified management structure would be the primary saving. The performing arts center estimate indicates a permanent staff of five and the estimate for the conference center is for eleven persons, for a total of sixteen. Combining the operations would enable elimination of two

staff positions—a Director and a Maintenance worker. The estimated salary and benefits saving is approximately \$130,000 annually. Small additional savings might be realized by the reducing the overall size of the facility a sharing of certain support and mechanical spaces. If the combined building were reduced in size by 2,500 to 5,000 sq. ft., the potential savings could be as much as \$10,000 annually.

The total annual saving in operating costs therefore would be about \$140,000 annually, resulting in a yearly net operating income of \$9,262 for a combined building and operations.

Funding Analysis

Introduction

A substantial amount of capital will be needed for the construction of the performing arts center and conference center. The most likely ways of raising capital are bonds and private debt, and, for the arts center, fundraising. Funds from naming rights and sponsorship may also be available.

In all likelihood, the approach to funding this development will be through a mix of bonds, private debt and fundraising. The annual operating deficits for the performing arts center means that it won't have a cash flow to support traditional private debt. The conference center has a positive cash flow but not one sufficient to support itself and the performing arts center. Conference centers have a challenging time getting traditional loans and some type of publicly issued bonds will be needed to fund this project. This section addresses bonds first, then traditional debt and finally fundraising.

Potential Sources of Revenue

The State of Arizona may be the best source of revenue if it enables what could be described as a "sales tax TIF" as it did for Tucson with the Rio Nuevo Multipurpose Facilities District. The state itself is dependent on the statewide sales tax as its second largest source of revenue following intergovernmental transfers from the Federal Government. While regressive, this form of taxation has been embraced by the state through the years over both income and property taxes that are lower sources of revenues. This is possible because Arizona's population centers are well away from the borders of the state where different policies in adjacent states might result in sales transfers to other states as is common in some regions of the country like the northeast where states with higher sales taxes can experience sales leakage.

In recent decades the sales tax has been regarded favorably as it is paid by tourists and second home owners who do not contribute to state coffers through the income tax program (income taxes are a graduated 2.87% to 5.04 %).

The basic state sales tax is 5.6% (food and prescription drugs are exempt.) All counties and some cities (including Sedona) can levy additional sales taxes that bring the combined tax to as high as 10.1%.

The table below illustrates the cumulative nature of the taxes in three counties: Coconino, Yavapai and Maricopa. The City of Sedona is split between Coconino and Yavapai. Maricopa is included for comparison as it's the State's largest. The City's sales tax is the same in both counties – 3% but there is a capital sales tax of .125% in the Coconino side of Sedona which raises tax there to 9.525% sales tax – higher than the 9.35 % in Yavapai County. Sedona is among the counties with the highest sales taxes in both counties. Williams and Page have the same sales tax level in Coconino. Only Jerome has the same tax level in Yavapai.

Figure 23: Sales Tax Rates for Coconino, Yavapai, and Maricopa Counties

Cities/Towns	State	Gen. Fund	Road	Capital	Jail	City	Total
Coconino County							
Flagstaff	5.60%	0.50%	---	0.125%	0.30%	1.601%	8.126%
Fredonia	5.60%	0.50%	---	0.125%	0.30%	2.000%	8.525%
Page	5.60%	0.50%	---	0.125%	0.30%	3.000%	9.525%
Sedona	5.60%	0.50%	---	0.125%	0.30%	3.000%	9.525%
Williams	5.60%	0.50%	---	0.125%	0.30%	3.000%	9.525%
Yavapai County							
Camp Verde	5.60%	0.50%	---	---	0.25%	2.00%	8.35%
Chino Valley	5.60%	0.50%	---	---	0.25%	2.00%	8.35%
Clarkdale	5.60%	0.50%	---	---	0.25%	2.25%	8.60%
Cottonwood	5.60%	0.50%	---	---	0.25%	2.20%	8.55%
Jerome	5.60%	0.50%	---	---	0.25%	3.00%	9.35%
Prescott	5.60%	0.50%	---	---	0.25%	2.00%	8.35%
Prescott Valley	5.60%	0.50%	---	---	0.25%	2.33%	8.68%
Sedona	5.60%	0.50%	---	---	0.25%	3.00%	9.35%
Maricopa County							
Queen Creek	5.60%	---	0.50%	---	0.20%	2.00%	8.30%
Scottsdale	5.60%	---	0.50%	---	0.20%	1.40%	7.70%
Surprise	5.60%	---	0.50%	---	0.20%	2.00%	8.30%
Tempe	5.60%	---	0.50%	---	0.20%	1.80%	8.10%
Tolleson	5.60%	---	0.50%	---	0.20%	2.00%	8.30%
Wickenburg	5.60%	---	0.50%	---	0.20%	1.70%	8.00%
Youngtown	5.60%	---	0.50%	---	0.20%	2.00%	8.30%

Overall, a portion of state revenues passes through to the cities. The City of Sedona receives state shared revenues from the vehicle license tax, the income tax, state sales tax, gasoline tax and lottery. In addition the city receives franchise fees from APS, Citizens Utilities, Arizona Water Company, Oak Creek Water Company, and Sedona Cable.

A number of City tax and intergovernmental transfer revenue streams may be a part of funding bonds for this project. Note that not all sources of revenue are included as some, such as the Streets Fund or Franchise Fees, are not likely to have a reasonable connection to this type of development to tap into. The revenue streams and the revenues they generated for FY 2002-2003

are listed below. The lodgings tax is shown in greater detail as this tax directly affects the actual beneficiaries of a conference center, the lodgings industry.

Sedona Taxes

- 3% Sales Tax
- To general fund - \$3,220,527
- To Capital Projects Funds - \$1,610,263
- 3% Bed Tax - \$1,222,356 (differs slightly from table below)
- Community Facilities District Fund - \$115,000

Intergovernmental Transfers from the State of Arizona

- State Sales Tax - \$704,306
- Urban Revenue Sharing - \$1,064,958
- Vehicle License Tax - \$689,733¹

Sedona does not have property taxes and is currently not permitted to have them.

Local Bed Tax collections have varied between \$1.2 and \$1.4 million in recent years. Collections climbed steadily from \$1.2 million in 1996 to \$1.4 million in 2001 before dropping 11% in one year and 2% the next following the 9/11 tragedy. Month to month changes for the first nine months of the current fiscal year show an equally dramatic 10% increase in this current 2003 to 2004 fiscal year.

Bed taxes are driven by both what visitors pay for a room and how many rooms are rented. In this year both occupancy and rates seem to be up in Sedona and across the industry.

Figure 24: Sedona Bed Tax Collections (By fiscal year)

Fiscal Year	Amount	Increase / Decrease
96-97	\$ 1,168,002	
97-98	\$ 1,301,672	10%
98-99	\$ 1,370,978	5%
99-00	\$ 1,334,790	-3%
00-01	\$ 1,418,521	6%
01-02	\$ 1,273,286	-11%
02-03	\$ 1,249,052	-2%

Source: Sedona Chamber of Commerce

¹ The City of Sedona receives a share of the State collection of the VLT. The VLT is based on \$2.80 or \$2.89 for each hundred dollars of assessed value. Assessed value is 60% of the manufacturers base retail price less 16.25% for each year following the vehicles registration in the State of Arizona.

Figure 25: Recent Sedona Bed Tax Collections

FY-02	Collections	FY-03	Collections	Monthly % change 02 vs. 03
Jul-02	\$114,003	Jul-03	\$112,219	-1.57%
Aug-02	\$92,970	Aug-03	\$100,933	8.57%
Sep-02	\$86,173	Sep-03	\$108,614	26.04%
Oct-02	\$116,696	Oct-03	\$109,431	-6.23%
Nov-02	\$127,500	Nov-03	\$137,056	7.50%
Dec-02	\$104,025	Dec-03	\$113,696	9.30%
Jan-03	\$74,670	Jan-04	\$72,848	-2.44%
Feb-03	\$56,349	Feb-04	\$69,693	23.68%
Mar-03	\$70,198	Mar-04	\$108,040	53.91%

Source: Sedona Chamber of Commerce

Funding Performing Arts Centers in Arizona

We gathered information on several performing arts centers in AZ, several of which were located in Maricopa County but first here is an overview of arts funding in Arizona (largely from a facilities perspective). Much philanthropically funded research has been completed recently on Maricopa County so it figures prominently in the discussion.

The type of local government support varies for arts and culture programs. Seven local arts agencies in the Maricopa region have been designated by local governments to manage arts and culture programs, funding, initiatives, and in some cases, facilities. Phoenix, for example, distributes city dollars in grants, but that approximately \$900,000 is dwarfed by the funds devoted to facilities such as Symphony Hall, Orpheum Theatre, and Herberger Theatre, which are managed by the Theater Division of the Civic Plaza Department.²

Local governments have also supported the arts by providing financing for performing arts centers and other arts and culture facilities.

- Chandler has a performing arts center
- Mesa is expected to open theirs in 2005.
- Tempe will open its center in Town Lake in 2006
- There is another facility currently being planned for Southwest Valley.

In recent years, residents of Phoenix, Mesa and Tempe have approved more than \$220 million in bond funding for performing arts venues. The arts and culture portion of the recent Phoenix bond

² Source: Technology Partnership Practice and Battelle Memorial Institute. "Draft SWOT Analysis: Summary of Input on the Strengths, Weaknesses, Opportunities and Threats Facing the Arts and Culture Sector in the Maricopa Region," December 2003.

program will be completed over a 5-year period. This bond will support the expansion, renovation or acquisition of the Phoenix Art Museum, Arizona Science Center, Phoenix Museum of History, Phoenix Theatre, Phoenix Family Museum, Valley Youth Theatre and Museo Chicano.

Figure 26: Recent Voter Approved Investments in Performing Arts Venues

Venue	Year of Voter Approval	Amount (Millions of Dollars)
Phoenix Arts and Culture Bond	2001	\$66.3
Mesa Performing Arts Center	1998	\$94.0
Tempe Performing Arts Center	2000	\$61.0
Total		\$221.3

Source: Technology Partnership Practice and Battelle Memorial Institute. "Draft SWOT Analysis: Summary of Input on the Strengths, Weaknesses, Opportunities and Threats Facing the Arts and Culture Sector in the Maricopa Region." December 2003.

No Arizona County that we are aware of offers funding to help support arts and culture throughout the county including unincorporated areas. Even the state's largest, Maricopa County (government), does not contribute to arts and culture organizations beyond public libraries. It operates one of ten public library districts in Arizona. This voter-approved special district uses a portion of property tax to provide public library services in unincorporated areas and by agreement in certain municipalities.

Mesa and Tempe devote a portion of city sales tax to arts and culture facilities.

- Mesa has a quality of life sales tax (recently increased one-half percent that will provide capital and operating support for the Mesa Arts Center).
- Arts organizations in the region typically mobilize to advocate for the arts in the short-term (i.e. specific bond issues).
- Phoenix had a Science Center/library/arts bond issue.

According to "A Place for Arts & Culture: A Maricopa County Overview," a September 2003 report prepared by the Morrison Institute for Public Policy, in many cities (including a number in Maricopa), organizations may receive local government dollars in operating support, project grants, or facility subsidies. Typical criteria that must be met to receive these funds include size, services, and contributions to the community. Public dollars, traditionally small in comparison to earned and contributed revenue, are typically used to leverage other donations.³

For fiscal year 2003-2004, the City of Phoenix's grants program (the State's largest) total \$989,089 for general operating support to 18 organizations, arts-in-education grants, capacity building, rental support, and community arts projects. Grants for general operating support are competitive and range between \$10,000 and \$80,000.

One way the local government works with facilities is through local arts agencies.

- Scottsdale: The private, nonprofit Cultural Council has contracted with the City of Scottsdale since 1987 to operate its institutions and programs.

³ Source: Morrison Institute for Public Policy. "A Place for Arts & Culture: A Maricopa County Overview," September 2003.

- Chandler: The City partners with the private, nonprofit operator of the Chandler Performing Arts Center.
- Mesa: The City has a separate division that operates many types of classes and manages the performing arts center that is currently under construction.
- Phoenix: It is part of the city manager's office and distributes the most city grant dollars.

Figure 27: Largest Local Arts Agencies - Maricopa County

	Receive "Locals" support from the ACA ^{1/}	Distribute Local Grants	Receive City General Funds	Presenting Agency	Manage Facilities	Manage City- Owned Collection s	2002-2003 Total O&M Budgets ^{2/} (Millions)
Chandler	X	X	X	X	X		\$0.95
Mesa	X	X	X	X	X	X	\$6.5
Peoria		X	X	X	X	X	N/A
Phoenix	X	X	X			X	\$1.9 ^{3/}
Scottsdale	X	X	X	X	X	X	\$9.0
Tempe	X	X	X		X		\$1.2
West Valley Fine Arts Council	X	X	X	X	X		\$0.96
Source: Local Arts Agencies, Arizona Commission on the Arts, Morrison Institute for Public Policy, 2003.							

^{1/} Arizona Commission on the Arts

^{2/} Figures do not include public art projects. Figures include facilities, except for Phoenix

^{3/} Does not include facilities

Other ways local governments support the arts include the following:

- Phoenix contributes through other departments and mechanisms. Phoenix performing arts facilities, including Symphony Hall and Orpheum Theatre, are managed by the Civic Plaza Department's Theater Division. This division also supports the Herberger Theatre Center. A total of nearly \$50 million support the arts commission, grants programs, facilities, fee waivers, debt service, percent for art, bond projects, and utility costs for some institutions.

Two agencies, Arizona Commission on the Arts (ACA) and Arizona Humanities Council, complement and support the local arts and culture agencies.

- ACA is the State of Arizona's official arts agency and recipient of funds from the National Endowment for the Arts. Part of its responsibilities includes making grants to arts and community organizations. ACA has two statewide funding programs, including the Arts Trust Fund (the source is a fee attached to corporate fillings with the Arizona Corporation Commission) and Arizona ArtShare (statewide arts endowment with designated funding from the state's commercial amusement tax).
- AHC is the state affiliate of the National Endowment for the Humanities. Part of its responsibilities is providing grants to organizations throughout the state.

The following table provides an overview of support programs for arts and culture in select categories. These categories include the following:

- **City-Operated Performance or Exhibit Venue** – Owned or operated concert halls, gallery spaces, or theatre. Examples: Orpheum Theater and Tempe Performing Arts Center.
- **Formal Local Arts Agency** – A local public agency or private, nonprofit organization designated by a municipality or region to coordinate and develop arts and culture in concert with the community.
- **Arts or Library District:** - Planning and/or taxing districts to support specific activities. Maricopa County's only example of this is the County's library district.
- **Bonds** – Voter-approved revenue bonds used for specific arts and culture project, most often buildings. Examples: Arizona Science Center and Mesa Performing Arts Center.
- **Sales Tax** – A proportion of city sales tax that is reserved specifically for arts and culture. Examples include: Tempe Performing Arts Center and Scottsdale McDowell Mountain Preserve.
- **Other Tax** – Some cities across the country use a portion of taxes on various aspects of tourism to fund arts and culture projects.
- **Other Funds** – Grant funds or fees from various public and private sources. Example: development fees.

ERA conducted case studies of several performing arts center – existing and proposed/under construction – to learn about financing strategies used for capital expenditures. See the following pages for this information.

Mesa Arts Center

The new Mesa Arts Center will be the largest arts center in Arizona and the only center offering comprehensive professional performing arts, visual arts and arts education programming on one campus. Capital funding is estimated to be \$94.5 million with \$90.8 million coming from the City of Mesa (through the Quality of Life sales tax, approved by voters in 1998) and \$3.7 million coming from the private sector (the Mesa Arts Alliance capital campaign. The capital campaign has met and exceeded goals. The annual operating budget is anticipated to be \$7.2 million, with \$3.8 million net coming from the City of Mesa (again coming from the Quality of Life sales tax), and \$3.4 million coming from earned and contributed revenue sources. The three-building, 206,500 SF, seven-acre complex (including 4 theaters, 5 galleries, 14 studios and classrooms, and various outdoor areas) broke ground in 2002 and will open in the spring of 2005. It is owned by the City and operated by the City of Mesa Arts and Cultural Division.

The Quality of Life Sales Tax program was passed in the May 1998 general election. It increased the City's transaction privilege tax (sales tax) from 1% to 1.5% to provide funds for health, safety and quality of life in the City. This included funds for a variety of things, including hiring and equipping safety personnel, expanding branch library hours and days of operation, expanding youth recreation programs, building and operating a community arts and entertainment center and public recreation facilities, and funding for transportation-related services. One-quarter percent of the sales tax expires July 2006 and the remaining tax will continue to be used for quality of life expenses. The 10-year, \$383 million plan is divided into three major areas: 1) Library, Parks & Cultural Programs, 2) Public Safety Programs, and 3) Transportation Programs. The tax was designed to fund construction of the capital facilities prior to the 0.25% reduction in 2006, with the remaining 0.25% revenue operating and maintenance expenses for various project and programs. Through June 31, 2004 (half-way through the 10-year program), \$163.4 million of sales tax revenues had been received and expenditures totaled \$125.3 million. Quality of Life

revenues and expenditures are part of the City's operating budget, but are tracked separately. Due to lower sales tax revenues than estimated (originally estimated at 6% growth), projections indicate that the Quality of Life program will receive about \$77 million less sales tax revenue throughout the 10-year program life.

Originally, the City intended on using some short-term bond financing for the project. However, due to additional time in the planning phase, a fairly good reserve of cash was already built for the project and they were able to finance the project with phased-to-go capital. It effectively saved the City money in the long run.

Tempe Center for the Arts

The new 88,000 square foot Tempe Center for the Arts will feature a 600-seat theatre, a 200-seat studio theatre, meeting and administration space and a 17-acre Arts Park. Users of the facility will include Childsplay, Tempe Little Theater, Tempe Symphony, Desert Dance Theater, Actors Renaissance Theater, A. Ludwig Dance, Arizona Academy for Performing Arts, Tempe Community Chorus and Essential Theater. The City broke ground in March 2004 (on the site of Tempe's first garbage dump) and anticipates the facility to be open in 2006. Tempe voters passed Proposition 400 in May 2000, which dedicated a 1/10 of a cent sales tax to provide funding for the \$63 million, 24-acre center. The tax provides funds for the \$63 million center and \$2.7 million for the adjacent park.

The sales tax dedication is solely for the development, construction, and operation of the arts center and was presented to voters as a separate voting item. This tax will be in effect for 20 years.

West Valley Fine Arts Council Center For the Arts - Avondale

The West Valley Fine Arts Council (WVFAC) is in the process of raising \$6 million to build an art center near Estrella Mountain Community College. WVFAC was created in 1969 and collaborates with five cities in the west valley to provide arts programming. The Council has raised over 60% of its \$6 million goal for Phase One construction, and anticipates it will break ground in September 2005. The cities of Avondale and Goodyear have each agreed to contribute \$250,000 to build the Center. The five acres were donated by SunCor, a real estate developer. Phase One will include a 300-seat theater; a dance and music studio; an art classroom; and program support space. Phase Two will be a 1,000-seat amphitheatre, with Phase Three adding additional classrooms and an art gallery.

The City of Avondale's contribution will be disbursed \$50,000 a year over the next five years. The \$50,000 each year will come from the city's one-time revenues fund, which is basically leftover money in that fiscal year's budget. If there isn't enough in that fund in a given year, the city will need to take funds from its operating revenues. The ongoing cost of the new fine arts center is expected to be around \$266,000 a year. The City has stipulated that the contributed funds will not hold the City for any additional funding related to future operating costs for the center. The City of Goodyear also authorized the payment of \$250,000 over five years to the Fine Arts Council for the new center. In May 2004, the Litchfield Park board voted in favor of a \$50,000 commitment to the West Valley Fine Arts Council, including \$10,000 out of the remainder of the current budget. WVFAC has yet to make a proposal for contributions from the remaining communities.

Chandler Center for the Arts

This facility has been open for about 15 years. The 64,000 SF facility has a turntable divisible auditorium which utilizes two large rotating platforms, 82 feet and 69 feet in diameter. These subdivide the large hall into a 350-seat intimate theatre, a 250-seat recital hall and a 1000 seat legitimate theatre, each of which can be used at the same time, and independently of, any of the other two areas. The Center also features a 2,000 square foot exhibition hall for touring and student displays, a foyer to serve each of the theatres independently or combined, and a catering facility.

The City of Chandler and Chandler Unified School District are joint owners and together funded the construction and continue to fund operations at the Center. As a result, the facility is used for a variety of educational and civic functions and rarely sits empty. The Chandler Cultural Foundation is a non-profit corporation that is under contract with the City of Chandler to program the Center and to raise an endowment fund. Over the years, the Foundation has brought in hundreds of internationally acclaimed performance and visual artists to the Center, while managing to increase the endowment to over \$1.2 million.

Originally, both entities (the City and the School District) were considering building separate facilities and determined that they weren't feasible on their own so they decided to work together for the construction of one facility. Each entity did its own bond election to pay for the \$10.2 million construction. The City and School District created an intergovernmental agreement that outlines each entities' responsibilities and scheduling priority. Costs are shared 50/50. The City is essentially the fiscal agent, with the School District reimbursing the City at the end of the fiscal year for the 50% of expenses it owes. These payments are flat rate based on averages of previous years' averages plus an inflationary increase.

The school district used general obligation bonds for its portion of the construction costs for the facility. Their G-O bonds typically run for 14 years. The school district also covers part of their share of the center's annual operating expenses from "excess utilities," which is reportedly unique to Arizona.

Coconino Center for the Arts – Flagstaff

The Coconino Center for the Arts serves as the cultural hub of the Flagstaff community. The 4000 sq. ft. gallery features diverse rotating exhibitions and a 200-seat theater offers musical concerts, readings, theater performances, and other presentations. Flagstaff Cultural Partners (FCP) is the Local Art & Science Agency for the greater Flagstaff area and manages the Coconino Center for the Arts. This organization also serves as the regrantee organization for the City of Flagstaff Art and Science Funds.

FCP receives support from the City of Flagstaff, Coconino County, the Arizona Commission on the Arts, and the National Endowment for the Arts. FCP has received support from the Flagstaff Community Foundation and the Arizona Community Foundation. Currently, FCP is working with the Flagstaff Unified School District and their Challenge Enrichment Program to develop programs and activities that will increase the artistic and cultural opportunities for Flagstaff youth. This partnership is supported by the Artists in the Community, Artists in the Schools special initiative through the Arizona Community Foundation, and the Arizona Alliance for Arts Education.

Coconino County owns the center, which has been around since the early 1980s. The center was first run by the County for a few years, and turned over to a non-profit which did its own shows plus rental of the facility until it was shut down in 1997, when the facility was falling into

disrepair and the non-profit was experiencing financial problems. The County started talking to the newly forming FCP in 1999 and asked if they wanted to take care of facilities. The County spent \$200,000 on exterior and interior renovations and FCP reopened the center in September of 2000.

Other Facilities

Two other performing arts facilities in Arizona are the ASU Sundome Center for the Performing Arts in Sun City West and the Berger Performing Arts Center, located on the campus of the Arizona State Schools for the Deaf and the Blind in Tucson. The Sundome Center has been around since 1980 and the 496-seat Proscenium Berger Theater was built in 1991 and dedicated in 1992. ERA does not go into detail with these facilities because, as campus facilities, their financing sources likely differ from those that will be available for the proposed Sedona facility.

The Phoenix Center for the Arts, a division of the Phoenix Parks and Recreation Department, originally was established as an art center intended to house the department's art coordinators. Through the building's renovation with a federal grant, it became a full-fledged performing arts center complete with a theater, gallery and classrooms. Phoenix also has some other performing arts venues, including the Helen K. Mason Center for the Performing Arts and the Herberger Theater Center.

The 572-seat proscenium theater Del E. Webb Center for the Performing Arts is located in Wickenburg. The community raised over \$2 million in a collaborative effort with the school district. The school district provided \$1.6 million dollars to build the shell of the building on the current Wickenburg High School campus, which was built and opened in the fall of 1999. Foundation contributions, private donations, and countless fundraisers enabled the Center to open with a full slate of performances for 2001-02.

The Yuma Art Center Complex was completed in February of 2004. The facility is city-owned, which leases it to the Yuma Fine Arts Association.

The Scottsdale Center for the Arts is owned by the City of Scottsdale and managed by the Scottsdale Cultural Council. Major supporters for the operation of the Center include members, corporate sponsors, volunteers, private foundations, grants, admissions, the City of Scottsdale, and private and public donations.

Phoenix Convention Center: In 2003, state legislators approved participation in the \$600 million expansion. The State will match the City's voter-approved investment of \$300 million. The expansion will triple its size.

There have been recent major additions to the Desert Botanical Garden and Heard Museum. Bond programs have been passed to create or renovate arts and culture facilities.

Financing the Development

Funding public facilities, performance, conference and other types is challenging in Arizona. Here is a review of the funding mechanisms typically used across the US and whether or not they apply to Arizona and Sedona. Even if the type of funding mechanism is not currently available in Arizona, it is useful to know what is being used elsewhere since there may be a way of adapting the idea to Arizona generally and Sedona specifically. The approach that "He who benefits pays and he who pays benefits approach" is discussed for each:

Hotel room taxes – The conference center will benefit a segment of hotel guests and the performing arts center a smaller segment of the hotel guests. This tax approach is somewhat indirect as not all guest benefit and the true beneficiaries are the hotels themselves but they are quick to point out that such taxes raise the cost of an overnight and can impact their overall room night sales. This may be a difficult case to make in Sedona as the tax increment is not likely to be large and our sense of the market is that the attraction magnetism of Sedona is not likely to be outweighed by a slight increase in room tax. Room taxes are the most common way capital is raised for meeting and convention facilities in communities as diverse as Anchorage (AK), Redding (CA), Spokane (WA), New York City (NY), San Francisco (CA), and many others. In Sedona the room tax is 3% and covers only those properties in the corporate limits.

It is worth noting that over the last decade, the performance of lodging properties with conference facilities has been better in both occupancy and room rates than lodging without conference facilities. We have found this to be generally true for the lodging properties here in Sedona that have their own conference and event facilities. Booking conference and events adds a layer of occupancy and guarantees a level of room rate that does not compete in the day to day market. The addition of conference center business to Sedona properties that do not have it now could reasonably be expected to increase hotel tax collections.

Retail sales taxes – This would be an appropriate way to support the performance facility as it is more widely used by the community. This would be true for the conference center too if it is programmed for local use. As noted above, Sedona's city sales tax of 3% is at the top in its two counties.

Food and beverage establishment sales taxes – This would be appropriate for both facilities although the hotel argument, listed above, about how the business benefits but the customers pays, applies here too. There may be an argument here that this tax should apply only to those establishments within a certain distance of the facilities. However, if a retail tax is broadly applied, restaurants should participate equally. To our knowledge, this type of targeted tax has not been authorized for municipalities in Arizona. Purchases at restaurants are currently subject to sales tax.

Entertainment sales taxes – Taxing the tickets sold at the performing arts center is a logical user fee but may not be sensible as it raises the price of the performing arts centers principal revenue stream and may have the effect of dampening demand. The tax and bonds approach is only necessary because the center cannot support itself on its own revenues. To impair ticket revenues may seem regressive. That said, if all other business entities in the area are supporting a facility through a taxes, shouldn't the users of the facility benefiting from the tax? A broadly based entertainment tax applying to cinemas and tours seems both fair to all of the other organizations carrying a new tax and but unfair in that a night at the cinema is being taxed to support a night at the performing arts center. Again, to our knowledge, this type of targeted tax has not been authorized for municipalities in Arizona.

A long-term ground lease of public land to a going concern – This is a good approach if such a deal is possible but there is likely to be little connection between such a deal and the use of the facilities unless the lease is for the development of a hotel, restaurant, or retail on the actual site of the new facilities. This was successfully done by Tinley Park, Illinois for a convention center with significant local programming. While we believe that a hotel would be a very complementary use for a performing arts center and conference center complex – especially the conference center portion, we are not recommending the addition of a hotel to the development program. Our reasons for this, discussed in our earlier report, are that the Sedona hotel market has

been under such pressure following declines 9/11 that additional competition was unwise. Having said that, a ten percent increase in bed tax proceeds, over the first nine months of the current fiscal year (including a 53% year over year increase in March) suggests that the hotel business is becoming more robust.

Long-term state funding commitments – this would have to be a special state grant program with a long term guarantee assuring that it could be bonded. Not likely in Arizona but new taxing entitlements from the state may be possible.

Proceeds from sales or property tax increment financing (TIF) – This is ideal were such districts possible in Arizona, but they are not. TIF districts across the US fund many types of public improvements and facilities. The fairness aspect of it is critical. With TIF, property taxes in a set area are frozen for a set period of time for the existing beneficiaries of those taxes (municipalities, school districts etc.). New or additional property tax revenues that result from new developments in an area or increases in property values due to the redevelopment of an area go into a special fund that can only be spent on projects in that area. The anticipated flow of funds into that fund can be used to support the sale of bonds to pay for the improvements and help fund new development in an area. Sometimes the tax increment (over and above the original tax levels) can come from sales as well as property taxes. Origins Park in Tucson is being funded (as were some suburban Phoenix sports facilities) by what could be characterized as sales tax TIF. It may be that such an incremental sales tax could be legislated by the state for this property.

A special assessment district – this is characteristically similar to the TIF discussed above but involves the addition of some type of new business, sales, or property tax on a defined project area. Typically the businesses and property owners in this area need to be in a substantial majority agreement for this to proceed. Again, this is a widely used funding mechanism with no authorization in Arizona,

A long term naming rights agreement with a substantial entity – This helped with two Wisconsin facilities, The Midwest Express Center (Now Midwest Airlines center) and the Alliant Energy Center. While there are many examples of naming rights being important to the capital funding of the project, they typically account for less than 20% of the project cost and often just a few percent.

Bond arbitrage from the possible refinancing of existing bonds – The expansion of the Jacob Javits Center in New York City is being financed in part by retiring some transportation (Bridge and road) bonds early (before stated retirement); refinancing them at lower interest rates; and redirecting the difference to the otherwise unrelated Javits redevelopment project. This may be possible in Sedona depending on the current structure of its debt. We are not in a position to judge this.

If bonds are to be used, we do recommend that the cash flows have some connection to the projects but as noted in some examples above, expediency in the interest of developing desired community facilities often prevails.

Private Debt Financing

Traditional bank funded mortgage financing, entails higher borrowing costs compared to municipal debt. This approach would also require the borrower to generate a level of equity, likely to be 75% of the loan amount, and have the ability to make debt service payments with a coverage ratio of 1.4 or better (net income before debt of 1.4 times annual debt service). In

evaluating revenues for the coverage ratio, experience indicates that banks tend to not look favorably on conference center uses.

Special Factors Associated with Performing Arts Venues

Most performing arts programs rely extensively on these sources to fund initial construction as well as on-going operations and capital improvements. The extent of contributions can range from individual gifts of \$100 up to naming rights deals for \$1 million or more. With regard to donations, it is risky to move ahead with construction of a project before figuring out how to fund annual operating costs.

In addition, funding can also be acquired through partnerships with public agencies, including school districts and park and recreation departments / districts. Opportunities for this funding would assume joint use of the facility by private groups as well as schools, etc. Other nominal funding options could include rental income from tenants in the performing arts center and ticket surcharges.

Other Considerations

The recent financial difficulties at the Cultural Park will cast a shadow over any financing scheme for performing arts facilities in Sedona. Taken separately, the conference center is not impacted by this situation.

None of the sites we have considered have thus far evinced any special opportunistic financing options.

Conclusions

Generally speaking our sense is that there is no breakthrough approach evident for funding this development in Sedona. Sedona's lack of a property tax and what appears to be a close to maxed-out sales tax (except in Yavapai County), coupled with the State's limitations on approaches like Tax Increment Financing (TIF) and special tax assessment districts suggests no clear direction to turn other than a further extension of the sales tax and hotel tax. The near-TIF approach used for new facilities in Tucson could also be considered. Lastly, if a site with excess developable land is identified, additional (commercial) development could be used to help finance the project. While this is likely to be controversial, in such a case it may be worth reopening the question of a small lodging property as a part of the project.

Economic Impact

The facilities proposed in this study will enhance economic activity in the region. The following section describes the ways in which the Performing Arts and Conference Center will add to the community's income and stimulate job creation.

Economic impact is normally considered to be the increases in wealth of individuals or businesses. It is a measure of the total direct and indirect economic benefits realized in a geographic region as a result of an expenditure. Considering the proposed Performing Arts and Conference Center for Sedona, the economic beneficiaries of the project will include employees of the Center, user groups and direct suppliers of goods and services, as well as businesses and individuals that profit from the consequent expenditures of employees, suppliers and patrons.

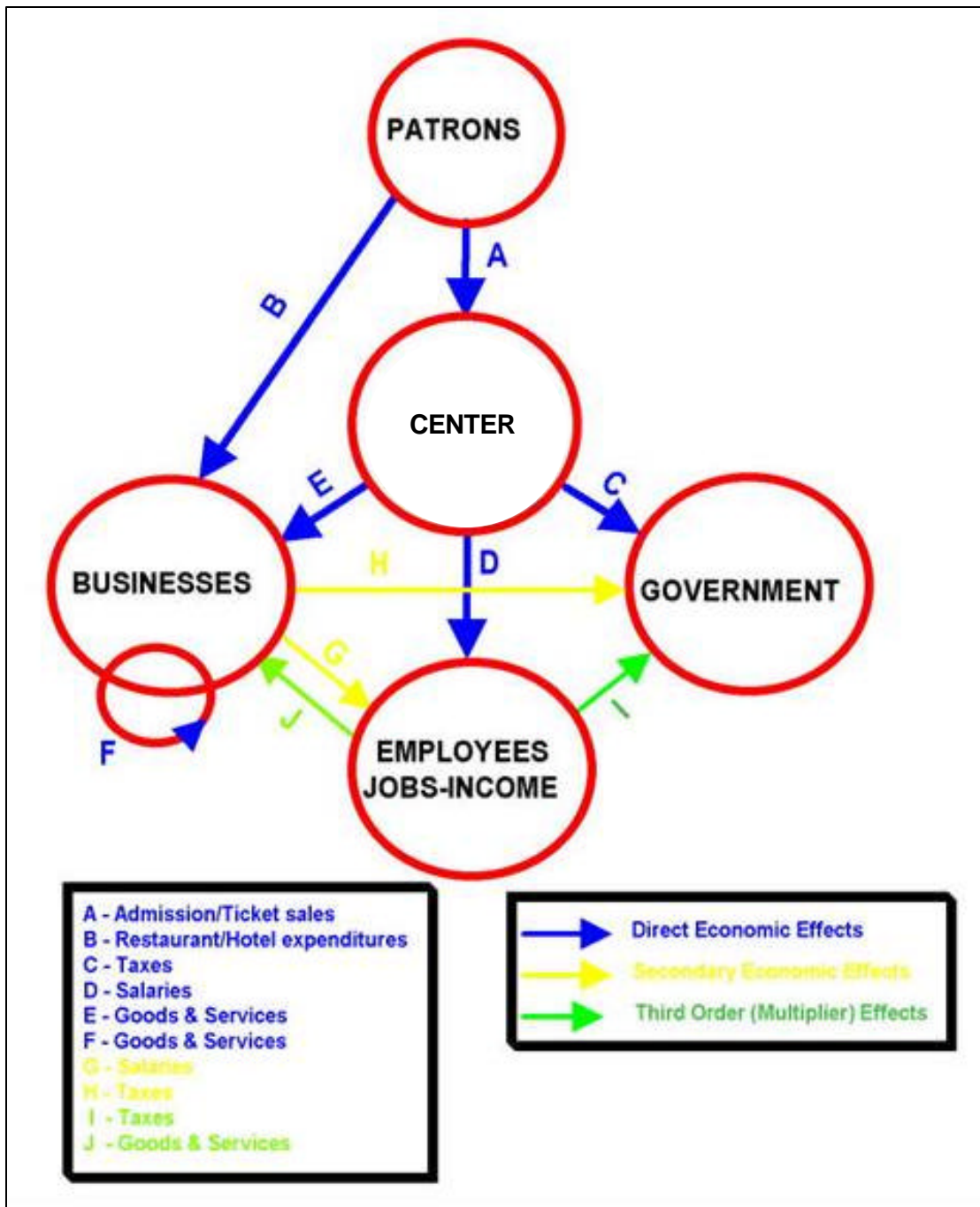
Direct and indirect benefits can be viewed as two wholly separate components of the total economic impact. The direct impact results from expenditures on salaries, goods, and services, including the secondary income generated by these expenditures (measured by a multiplier process). The indirect benefits result from any related or ancillary spending, which is stimulated by the presence of the facility in the community. The following discussion of the economic impact is necessarily short and is a simplification of an extremely complex subject. The analysis is divided into components of the impact according to the above description. Expenditures used for this impact assessment are from the operating estimates for a base year of operation as outlined above.

Figure 28 depicts these economic impacts.

The multiplier effect referred to above results from the respending of money that employees, businesses, and others receive in payments of earnings. This secondary spending is a further addition to the income of local businesses. Subsequent respending continues to increase the impact. Of course, since only portions of these funds are spent locally, the effect gets smaller by the amount spent outside the community. The effect eventually diminishes entirely, but before that occurs, the total economic effect will be several times the original expenditure. The multiplier then, is the ratio of the total increase in local incomes to the initial expenditure, and it represents the factor by which the initial spending multiplies in its total impact on the income of the community. For this analysis, AMS has drawn on studies conducted for the National Endowment for the Arts and Americans for the Arts in many communities throughout the U.S., applying principles and multiplier effects similar to those used in such studies.

The following discussion of the economic impact is necessarily short and is a simplification of an extremely complex subject. The analysis is divided into components of the impact according to the above description. Expenditures used for this impact assessment are from the operating estimates for a base year of operation as outlined above.

Figure 28: Economic Impact Illustrated



Direct Expenditures

Salaries

Salary payments will be made to the full-time and part-time staff of the Conference and Performing Arts Center, who, it is presumed, will reside in the Sedona market area. Fees paid to contractors (for booking, marketing and public relations) are also included. The total amount paid in salaries and contractor's fees for the Performing Arts component is estimated at \$450,000. For the Conference Center, the total amount paid in salaries for full-time and part-time jobs is estimated at \$686,170 in the third year of operation (includes Food and Beverage). The total, less the expected \$140,000 savings from joint operation, would be \$996,170.

Purchases

Purchases made by the Conference and Performing Arts Center may be split into those made from local suppliers and those from non-local suppliers. Purchases from local suppliers will result in direct increases in the income of local businesses; purchases from non-local suppliers will have a lesser effect, but nevertheless, the benefit is not zero since many of the suppliers will incur local costs. A significant proportion of the revenue to both local and non-local suppliers will be spent in the local economy. Total purchases for operation of the Performing Arts Center are estimated to be approximately \$250,000 annually and for the Conference Center \$544,878 in the third year of operations. For this forecast, we are assuming that approximately 25% of purchases will occur locally. Therefore, local purchases are estimated to be about \$62,500 annually for the Performing Arts Center and \$136,219 for the Conference Center totaling \$198,719. Non-local purchases will be around \$187,500 and \$408,658 respectively per year, for a total of \$596,158.

Indirect Expenditures

Performing Arts Center

The indirect component of the economic impact arises from the fact that when people attend events, they frequently incur some ancillary concurrent expenditures; perhaps dinner, transportation costs, parking, baby-sitting, or even a visit to a hairdresser. Visitors from out of town may stay a night, or at least buy a souvenir for the folks back home. Surveys of audiences at performing arts events cities have indicated that concurrent spending ranges from \$6 for a local resident to upwards of \$50 per patron. (A recent California study found expenditures by local residents to be \$15.00 and visitors spending \$41.00 in association with art events.) For this forecast, in an effort to be conservative the figures of \$10 per patron for locals and \$35 per patron for non-locals have been used.

The impact from indirect expenditures results from attendance at events at the center. The total attendance is counted, whether for a meeting, to a performance, conference, or a special event.

The preliminary estimate for total annual attendance is 170,000, comprised of the following:

Performances	155,000
Rehearsals, meetings, classes, etc.	5,000
Estimated casual visits (meetings).....	10,000

The spending pattern of each type of patron will be markedly different. Experience has shown that a theater patron for a performance has a relatively higher propensity to make ancillary

expenditures compared to a banquet attendee or participant in a rehearsal or meeting. For purpose of this analysis, an estimate of 50 percent non-local (from outside the 10-mile market area) patrons has been applied. The analysis also assumes that all expenditures are new money.

Figure 29: Performing Arts Center Indirect Impacts

<u>Component</u>	<u>Attendance</u>	<u>Spending</u>	<u>Multiplier</u>	<u>Impact</u>
Local	85,000	\$10.00	1.75	\$1,487,500
Non-Local	85,000	\$35.00	2.0	\$5,950,000
Total	170,000			\$7,437,500

Conference Center (Stabilized - Third Year of Operation)

There are several relevant categories of conference center attendance for an economic impact assessment. They are:

- Approximately 15,000 visitor days in the community by attendees at conferences
- Approximately 7,500 visitor days in the community by the spouses or others with these conference attendees (a fifty percent rate – a low estimate for Sedona).
- An estimated 10% of the 40,000 consumer show attendees, or 4,000, will be from outside of Sedona area. We further estimate that half of these attendees, 2,000, are likely to be in town for the show and will stay overnight. We assume that they will be in town for 2 days (including 1 night) on average for a total of 6,000 visitor days.
- An estimated 25% of the 5,000 social event attendees or 1,250 from outside of the Sedona area - since they are likely to be in town for the social occasion and the event is likely to be an evening one, we assume that they will be in town for 2 days (including 1 night) on average. This yields 2,500 visitor days.
- No assumption is made that conference attendees will stay additional days in the Sedona area.

Figure 30: Indirect Economic Impact by Attendees (Year 3)

Attendee Category	Visitor Days	Average Daily Expenditure	Multiplier	Impact or Total Local Expenditure
Conference Attendance	15,000	\$150	1.75	\$3,937,500
Spousal Conf. Attendance	7,500	\$75	1.75	\$984,375
Consumer Shows	6,000	\$100	1.75	\$1,050,000
Social Events	2,500	\$100	1.75	\$437,500
Total	31,000			\$6,409,375

Most attendees at consumer shows, social events and other meetings are from the local market. Due to the nature of these events (number per year, food & beverage included) concurrent spending is difficult to estimate and these numbers are not included in the indirect impact.

Figure 31: Direct Impacts for Both Facilities (Year 3)

Component	Multiplier	Expenditure	Impact
Salaries*	2.0	\$996,170	\$1,992,340
Local Purchases	1.75	\$198,719	\$347,758
Non-Local Purchases	0.25	\$596,158	\$149,040
Total			\$2,489,138

* PT, FT & contractors less \$140,000 for staff efficiencies from combined operation

Total Estimated Annual Economic Impact

Based on the above estimates in the first year of operations and on comparative studies in other U.S. cities, the following combined estimate for the conference and performing arts center is outlined in Figure 32.

**Figure 32: Total Annual New Economic Impact from Both Facilities
(Year 3)**

Direct Impact	\$2,489,138
Indirect Impact	\$13,846,875
TOTAL ANNUAL IMPACT	\$16,336,013

In addition to this forecast is the spending impact of guest artists, who will perform at the Performing Arts Center and stay in the city. In one study in California, this spending added over \$700,000 to the area economy. Further still are the intangible benefits an active arts and conference center has on home values, general retail activity and attracting and retaining businesses.

Rm #	Name	TPC Net SF	Occup (P)	Unit	Qty	W	D	H	Notes	G/N	TPC Gross SF	Ground Flr	Other Flrs
PROGRAMMED AREAS													
100	PUBLIC AREAS	6,600								1.18	7,775	7,280	495
200	PERFORMANCE AREAS	12,358								1.16	14,298	9,973	4,325
300	STAGE SUPPORT	1,925								1.16	2,224	1,510	715
400	PERFORMER SUPPORT	2,550								1.18	3,019	-	3,019
500	REHEARSAL	3,510								1.15	4,021	-	4,021
600	ADMINISTRATION	1,000								1.10	1,100	-	1,100
700	SERVICES	375								1.10	413	303	110
800	300-SEAT PERF SPACE	5,250								1.16	6,083	4,845	1,239
	Total NET SF	33,568								1.16	38,933	23,910	15,023
NON PROGRAMMED AREAS													
	CIRCULATION									0.12	4,672	2,869	1,803
	MECHANICAL & ELECTRICAL									0.12	4,672		4,672
	INACCESSIBLE SPACES									0.04	1,557	956	601
	Total GROSS SF	49,834								1.48	49,834	27,735	22,099

Rm #	Name	TPC Net SF	Occup (P)	Unit	Qty	W	D	H	Notes	G/N	TPC Gross SF	Ground Flr	Other Flrs
100	PUBLIC AREAS												
111	Entrance Lobby		650										
112	Inner Lobby	1,950	650	3.0									
113	Public Circulation	1,950	650	3.0									
	<i>total nsf/seat</i>	3,900		6.00						1.20	4,680	4,680	
131	Box office windows	100	2	50						1.10	110	110	
132	Box office operations	225	3	75						1.10	248	248	
133	Box Office Manager	100	1	100						1.10	110	110	
141	Bars	330	27	1.5		40	8		33% of Capacity/8	1.10	363	363	
142	Bar storage	50		15% #141					15% of Bar space	1.10	54	54	
151	Donor lounge	450	30	15						1.10	495		495
161	House Manager's office	100	1	100						1.10	110	110	
171	Coatcheck	90	108	0.75					P=Capacity/6	1.10	99	99	
174	Janitor Closets	30		30	1					1.25	38	38	
181	Front-of-house storage	50	1	50	1					1.10	55	55	
191	Restrooms - male	210	6	35						1.20	252	252	
192	Restrooms - female	900	18	50						1.20	1,080	1,080	
193	Family assist restroom	65	2	65	1					1.25	81	81	
	TOTAL PUBLIC AREAS	6,600								1.18	7,775	7,280	495
200	PERFORMANCE AREAS												
	<i>Auditorium</i>	<i>Capacity</i>	650										
211	Orchestra floor	2,600	260	10.0	40%					1.15	2,990	2,990	
212	Parterre	1,729	173	10.0	27%					1.15	1,988	1,988	
213	Balcony	2,275	217	10.5	33%					1.15	2,616		2,616
			<i>Proscenium</i>			<i>Stage</i>							
	<i>Stage</i>		W	H		W	D	H					
221	Mainstage	4,050	50	26		90	45	65		1.15	4,658	4,658	
	<i>Overhead</i>					W	D						
231	Loading gallery	<i>in gross</i>			1	4	45						
232	Fly floors	<i>in gross</i>			2	6	45						
233	Crossover gallery	<i>in gross</i>			1	3	75						
234	Auditorium catwalks	<i>in gross</i>			3	4	70						
235	Grid	<i>in gross</i>				90	45						
	<i>Understage</i>		<i>Musicians</i>			W	D						
241	Orchestra pit/forestage	496	28	18		62	8			1.10	546		546
242	Orchestra pit overhang	224	12	18		56	4			1.10	246		246
			40										

Rm #	Name	TPC Net SF	Occup (P)	Unit	Qty	W	D	H	Notes	G/N	TPC Gross SF	Ground Flr	Other Flrs
	<i>Control/Followspot</i>												
261	Control - light	120	2	60		12	10			1.25	150	150	
262	Control - sound	150	2	75		15	10			1.25	188	188	
263	Control - projection	144	2	72		12	12			1.25	180		180
265	Follow spots	270	3	90		27	10			1.45	392		392
	<i>Services</i>												
271	Dimmer room	150	1	150						1.15	173		173
272	Sound Rack room	150	1	150						1.15	173		173
273	Company switch/transfer	<i>in gross</i>											
	TOTAL PERFORMANCE AREAS	12,358								1.16	14,298	9,973	4,325
300	STAGE SUPPORT												
311	Scene Dock	800			1	40	20	20		1.15	920	920	
312	Storage - Rigging	50		50	1					1.15	58	58	
313	Storage - Lighting	150		150	1					1.15	173		173
314	Storage - Sound	150		150	1					1.15	173		173
315	Storage - Props	150		150	1					1.15	173	173	
316	Storage - Piano	80		80	1					1.15	92	92	
321	Scenery Maintenance	200		200	1					1.15	230	230	
331	Office - Technical Director	120	1	120						1.15	138		138
333	Office - Visiting Production	120	1	120						1.15	138		138
343	Restrooms - Female	40	1	40						1.25	50		50
344	Restrooms - Male	35	1	35						1.25	44		44
345	Janitor closet	30	1	30						1.25	38	38	
	TOTAL STAGE SUPPORT	1,925								1.16	2,224	1,510	715
400	PERFORMER SUPPORT												
411	Dressing room - star	360	1	180	2	2			w/ toilet & shower	1.25	450		450
412	Dressing room - 2/4 person	600	4	75	2	8			w/ toilet & shower	1.20	720		720
413	Dressing room - group	1,000	10	50	2	20			w/ toilet & shower	1.20	1,200		1,200
						30							
431	Wardrobe	250	1	250						1.10	275		275
432	Laundry	80	1	80						1.10	88		88
461	Green room	260	18	14						1.10	286		286
	TOTAL PERFORMER SUPPORT	2,550								1.18	3,019	-	3,019

Rm #	Name	TPC Net SF	Occup (P)	Unit	Qty	W	D	H	Notes	G/N	TPC Gross SF	Ground Flr	Other Flrs
500	REHEARSAL												
511	Rehearsal Room - Large	2,000			1	50	40	30		1.15	2,300		2,300
512	Rehearsal Room Storage	100							5% of reh rm area	1.10	110		110
521	Rehearsal Room - Small	1,200			1	40	30	30		1.15	1,380		1,380
522	Rehearsal Room Storage	60							5% of reh rm area	1.10	66		66
560	Recording Control Room	150			1	15	10			1.10	165		165
	TOTAL REHEARSAL	3,510								1.15	4,021	-	4,021
600	ADMINISTRATION												
601	Director	200	1	200						1.10	220		220
602	Staff Offices	400	4	100						1.10	440		440
603	Receptionist	150	1	150						1.10	165		165
604	Workroom	200	1	200						1.10	220		220
601	Storage Room	50	1	50						1.10	55		55
	TOTAL ADMINISTRATION	1,000								1.10	1,100	-	1,100
700	SERVICES												
701	Housekeeping Storage	100		100	1					1.10	110		110
702	Catering Pantry	225		225	1					1.10	248	248	
703	Catering Storage	50		50	1					1.10	55	55	
704	Loading Dock	in gross											
	TOTAL SERVICES	375								1.10	413	303	110
800	300-SEAT PERFORMANCE HALL												
811	Performance Area	3,500			1	50	70	40		1.15	4,025	4,025	
812	Control - light & sound	150	2	75		15	10			1.25	188		188
813	Scene Dock/Chair & Riser Storage	600			1	30	20			1.15	690	690	
814	Storage - Piano	80		80	1					1.15	92	92	
815	Janitor closet	30	1	30						1.25	38	38	
816	Dressing room - 2/4 person	720	4	60	3	12			w/ toilet & shower	1.20	864		864
817	Green room	170	12	14						1.10	187		187
	TOTAL 300-SEAT AREAS	5,250								1.16	6,083	4,845	1,239

1. Assumptions

Building Gross Floor Area	Theaters	49,000 sq. ft.
	Conference Center	24,800 sq. ft.
	Outdoor Space	3,500 sq. ft.

Capacity

Theater	650
Studio Theater	300
Lobby (social events)	175

Facility Rental Rates**Theaters**

Rental rates based on 5% of Gross Receipts versus base rent as follows:

- Theater Events

Non-profit	Preparation	Performance
Theater	\$325	\$650
Studio Theater	\$150	\$300

Commercial	Preparation	Performance
Theater	\$450	\$1,300
Studio Theater	\$200	\$600

- Social Events

	Commercial	Non-Profit
Lobby	\$1,000	\$500

Meeting rooms**Average Rates/Hour**

Green Room	\$50
Board Room	\$30

Estimated Building Construction Cost

Theaters	\$12,000,000
Conference Center	\$3,000,000
Landscape	\$1,000,000

Operating Assumptions

Average Fringe Benefits Rate for FTEs	30%
Fringe Benefits Rate for PTEs	13%
Contingency % of Operating Expenses	5%
Facility Fee (per ticket)	\$1.50
Average Concession Transaction	\$2.50
Concession Capture Rate	35%
Concession Contribution Margin	15%

Maintenance & Operations

Occupancy Cost* (excl. capital reserve)	per gsf	\$7.50
Landscape Maintenance	% of Replacement	3.00%
Insurance	% of Replacement	0.50%
Capital Reserve	% of Replacement	1.50%

* Utilities, Security, Custodial, Custodial Supplies, Information Technology etc.

2. Estimated Use

Theater	# of Performances	Event Days	Prep Days	Use Days	% Sold	Attendance	Avg Ticket Price	Gross	Rental Income
Identified Users	62	62	15	77	70%	28,210	\$35	\$987,350	\$49,368
Other non-profits	60	40	10	50	60%	23,400	\$25	\$585,000	\$29,250
Touring Artists	20	13	0	13	70%	9,100	\$40	\$364,000	\$18,200
Commercial/Private	12	12	0	12	75%	5,850	\$-	\$-	\$15,600
Subtotal	154	127	25	152		66,560		\$1,936,350	\$112,418

Lobby / Gallery Rentals

Commercial	15	15	0	15	100%	2,625	\$-	\$-	\$15,000
Non-profit	10	10	0	10	100%	2,625	\$-	\$-	\$5,000
	25			25		5,250			\$20,000

Studio Theater	# of Performances	Event Days	Prep Days	Use Days	% Sold	Attendance	Avg Ticket Price	Gross	Rental Income
Identified Users	262	170	40	210	85%	66,810	\$30	\$2,004,300	\$100,215
Other non-profits	50	40	10	50	85%	12,750	\$20	\$255,000	\$12,750
Events	10	10	0	10	100%	3,000	\$-	\$-	\$3,000
Subtotal	322	220	50	270		82,560	\$50	\$2,259,300	\$115,965

Meeting Rooms	# of rentals	Rental Income
Green Room	25	\$1,250
Board Room	50	\$1,500
Total	75	\$2,750

Theater Total	501		447		\$251,133
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Notes: An Event Day may comprise more than one performance

Rental rates are flat rate; theater attendance estimates used for concession revenue estimates

Identified Theater Users

Red Rocks Music Festival
Sedona Jazz on the Rocks
Chamber Music Sedona
Canyon Singers
Sedona Showstoppers

Identified Studio Theater Users

Shakespeare Sedona
Canyon Moon Theatre
Verde Valley Chamber Orch.
Sedona Concert Band
Opera League of N. Az.
El Valle Artists Assn.

3. Estimated Revenues	
<u>REVENUE</u>	
Theater Rental Income	\$251,133
Food and Beverage <i>(except commercial)</i>	\$19,600
Box Office <i>(charged to renter)</i>	\$44,700
Technical Crew Charge <i>(Gross revenue)</i>	\$47,400
Misc. Fees <i>(charged to renter; security, equip't, etc.)</i>	\$21,700
Facility Surcharge <i>(paid by patrons)</i>	\$223,680
TOTAL REVENUE	\$608,213
Notes:	
<i>1. Net after Cost of Goods and Wages</i>	

4. Estimated Expenses		
<u>EXPENSES</u>		
Personnel		
Administrative Staff		\$323,700
Stage/Event Crew		\$53,680
House Management (PT)		\$32,100
PT Benefits (8%)		\$11,200
<i>Total Theater Personnel</i>		<u>\$420,680</u>
Administrative Overhead		
Supplies/Services		\$9,000
Development Expense		\$30,000
Travel/Entertainment/Memberships		\$3,000
Telephone		\$6,000
Postage		\$3,600
Equipment		\$6,000
<i>Total Administrative Overhead</i>		<u>\$57,600</u>
Box Office		
Box Office Staff (PT)		\$20,520
Ticket Printing		\$2,000
Supplies		\$4,000
<i>Total Box Office</i>		<u>\$26,520</u>
Building & Operations		
Occupancy cost		\$368,000
Landscape Mtce		\$30,000
Theater Equipment R&M		\$10,000
Insurance		\$60,000
<i>Total Operations</i>		<u>\$468,000</u>
Total		<u>\$972,800</u>
Contingency 5%		<u>\$48,600</u>
Total Expenses		<u>\$1,021,400</u>
TOTAL REVENUES		<u>\$608,200</u>
OPERATING RESULT		<u>\$(413,200)</u>

Second Phase Draft Report

**Sedona
Performing Arts and Conference
Center
Feasibility Study**

Submitted to

City of Sedona

June 2004

ERA Project Number: 15228

General Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible, and they are believed to be reliable. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent, and representatives or any other data source used in preparing or presenting this study.

No warranty or representation is made by Economics Research Associates that any of the project values or results contained in this study will actually be achieved.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

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1 INTRODUCTION

AMS Planning & Research (AMS) and Economics Research Associates (ERA) were retained by the City of Sedona to conduct a feasibility study for performing arts and conference facilities for Sedona. Phase One of the study, completed in January 2004, included an assessment of the market potential for performing arts and conference facilities, analysis of potential user's interest in a performing arts facility, research into program opportunities, and comparable case studies. This report provides detailed recommendations for the conference facility, including a demand analysis and a ten year projection of operating revenues and expenses.

2 CONFERENCE AND MEETINGS MARKET

Meetings and conventions bring obvious benefits to destinations, hotels, local attractions and businesses as well as local communities. If business travelers have a satisfying experience at their destination, they will return for more meetings, encourage their own companies to hold meetings there and come back for leisure trips.

This section discusses the nature of meetings, conferences and events generated by corporations, associations and the SMERF (social, military, educational, religious, and fraternal) market.

Phase One of this study, completed in January 2004 provided a background discussion of historical trends in the industry, the competitive of Sedona as a conference destination and alternatives for a conference facility.

The following discussion provides additional relevant historical statistics and facts. There are several well-known industry publications, which have surveyed the respective industries over the past 15 years, including *Meetings and Conventions Magazine* (M&C), *Facilities Magazine*, *Directory of Conventions*, and *Amusement Business*. Background information was also gained from the Urban Land Institute, the American Planning Association, and the Center for Exhibition Industry Research, supplemented by ERA experience with respect to conference facility development across the U.S. and our local Sedona market knowledge.

2.1 Corporate Market

More than 840,000 corporate meetings were held in 2001 with an average attendance per meeting of 61 persons. Twenty-percent of all corporate meetings were held in Arizona, which translates into approximately 168,000 events. Twelve-percent or 14,000 were held at non-resident conference centers.

2.1.1 Arizona Corporate Market

Based on the 2001 County Business Patterns (NAICS)¹, the annual national average of meetings was 0.12 per corporation. Applying that to the total number of business establishments in Arizona with 50 or more employees, approximately 800 meetings will be held each year. We estimated that 60% of all corporate meetings would be held in-state (based on preferences of meeting planners and corporations in *Meetings Market 2002* a survey published by Meetings and Conventions Magazine), which would translate into 480 meetings. According to this survey, 12% of all corporate meetings are held at non-resident conference centers. Applying this percentage to total meetings held in-state, approximately 57 meetings are held at non-resident conference centers per annum.

The following table applies the industry numbers introduced above to corporate meeting markets relevant to the proposed conference facility in Sedona. The first rows establish the industry

¹ North American Industry Classification System, U.S. Census Bureau

factors and preferences which then are applied the number of establishments. This narrows the market potential down to a more accurate number. The circled numbers in the following table are the result of this process.

Table 1. Corporate Market Potential

Total Corporate Meetings 2001	844,100						
# of Establishments 2001	7,095,302						
# of Establishments with 50+ employees 2001	391,341						
Estimated national average of annually meetings per Corporation						0.12	
Estimated national average of annually meetings per Corporation with 50+ employees						2.16	
Meetings held at non-resident CC					12%		
Corporate Meetings held in AZ in 2001				20%			
Meetings held in-state/out-of-state		60%	40%				
# Arizona Establishments	116,304	69,782		8,374		996	
# Arizona Establishments with 50+ employees	6,683	4,010		481	1,038		
# California Establishments	806,733	322,693	64,539	7,745		921	
# California Establishments with 50+ employees	46,748	18,699	3,740	449	968		
# Colorado Establishments	139,225	55,690	11,138	1,337		159	
# Colorado Establishments with 50+ employees	6,805	2,722	544	65	141		
# Nevada Establishments	48,863	19,545	3,909	469		56	
# Nevada Establishments with 50+ employees	2,813	1,125	225	27	58		
# New Mexico Establishments	42,686	17,074	3,415	410		49	
# New Mexico Establishments with 50+ employees	1,873	749	150	18	39		
# Utah Establishments	56,851	22,740	4,548	546		65	
# Utah Establishments with 50+ employees	2,949	1,180	236	28	61		
Potential # of Corporations from out-of-state - meetings		437,743	87,549	10,506		1,250	
Potential # of Corporations with 50+ employees from out-of-state - meetings		24,475	4,895	587	1,267		
Potential # of AZ Corporations with meetings in-state		69,782	69,782	8,374		996	
Potential # of AZ Corporations with 50+ employees - meetings in-state		4,010	4,010	481	1,038		
Total	1,210,662		157,331	18,880		2,246	
Total Corporations with 50+ employees	67,871		8,905	1,069	2,305		

*Sources:**County Business Pattern 2001**Association Listing 2002-2003**2002 Meetings Market Study*

2.2 Association Market

More than 177,000 association meetings were held in 2001 with an average attendance per meeting of 91 persons. Seventeen-percent of all association meetings were held in Arizona, which translates into approximately 30,000 events. Seven-percent or 2,100 were held at non-resident conference centers.

2.2.1 Arizona Association Market

Economics Research Associates reviewed available data for Arizona-based associations. The 2003-2004 Douglas Publications Association Meeting Planners Guide listed 332 Arizona-based associations. Only 20%, however, provided information in all categories of the list. Therefore, these figures are not quite representative of all associations in Arizona and should be used cautiously as a basis to estimate demand.

The vast majority of the listed associations did not provide sufficient data on the number of events they hold per annum and the amount of days per event. Of the 65 associations that provided data, a majority holds one to four events per year, followed by the number of associations that hold between five and ten and those that hold between eleven and twenty annual events. One association listed holds between 251 and 500 meetings per annum. All of the associations, which provided data, claimed that their meetings last between one and four days. Approximately 50% of the listed associations commented on the number of attendees for meetings; over half (56%) have events with fewer than 200 people while just under half (44%) have meeting events with more than 200 attending. Over 90% (153 of 167) of associations indicated that they prefer to use downtown facilities for meeting venues. Taking the above numbers into consideration, ERA estimates an average of three meetings per year for associations in Arizona.

We estimated that 60% of all association meetings would be held in-state (based on preferences of meeting planners and corporations in the Meetings Market 2002 survey), which would translate into roughly 990 meetings. According to this survey, 7% of all association meetings are held at non-resident conference centers. Applying this percentage to total meetings held in-state, approximately 58 meetings are held at non-resident conference centers per annum.

The following table applies the industry numbers introduced above to associations meeting markets relevant to the proposed conference facility in Sedona. The first rows establish the industry factors and preferences which then are applied to the number of associations. This narrows the market potential down to a more accurate number. The circled numbers in the following table are the result of this process.

Table 2.. Association Market Potential

Total Association Meetings 2001 177,700
 # of Associations 2002 11,756

Estimated national average of annually meetings per Association					15
Meetings held at non-resident CC					7%
Association Meetings held in AZ in 2001					17%
Meetings held in-state		60%	40%		
# Arizona Associations	331	199		14	210
# California Associations	826		330	56	59
# Colorado Associations	272		109	18	20
# Nevada Associations	56		22	4	4
# New Mexico Associations	72		29	5	5
# Utah Associations	84		34	6	6
Potential # of Associations out-of-state - meetings			524	89	94
Potential # of AZ Associations with meetings in-state		199		199	210
Total	1,641	723		288	304

*Sources:**County Business Pattern 2001**Association Listing 2002-2003**2002 Meetings Market Study*

2.3 Capture Rates

Table 3.. Estimated Capture Rates

		Association	Corporate	Corporate 50+
In-State Capture Rate	2%	4	20	21
Out-of-State Capture Rate	1%	1	12	13
Total		5	32	33
Potential # of Annual Events				
Assoc & Corp	38			
Assoc & Corp 50+	39			

Based on the results presented in the previous tables, which estimated the market potential, ERA established the above capture rate which results in a total of five association meetings and 33 corporate meetings.

2.4 SMERF Market

Activities related to SMERF (social, military, educational, religious, and fraternal) within the regional and local market, in addition to churches, schools, clubs, etc. generate events throughout the year. Most events are local and are mainly daily events and/or events that do not require overnight stays at lodging facilities.

But these SMERF and social events generated by the regional and local market are projected to have minimal impact on the proposed meeting facilities. This is because events such as weddings, reunions, and other special events that would require overnight stays are most likely events that would be held at already existing hotels with smaller, suitable meeting facilities. Furthermore, the association and the SMERF markets are overlapping so that a large portion of the SMERF market (e.g. educational) is already covered within the association market. The facility's function as an Arts Center would compensate for the missing revenue from this market segment.

2.5 Summary

From ERA's perspective, a mixed-use development (arts & performance and conference center) helps insulate the project from uncertainties related to economic cycles, by allowing the project to tap into different markets at different times.

In terms of meetings, the proposed facility in Sedona would likely attract mainly smaller corporate and association meetings and seminars as well as some SMERF (social, military, educational, religious, and fraternal) events and a few special events from the resident market in addition to its function as an Arts Center.

Based on the above data, to lure associations and corporations to hold their meetings and seminars in Sedona, the proposed facility would have to offer exceptional services and amenities in combination with an aggressive marketing strategy to compensate for its secluded location. With the appropriate facilities and amenities, Sedona would capture a portion of the corporate meetings, corporate retreats and regional association meetings and seminars, tapping into market trends moving towards smaller meetings that require smaller facilities.

In terms of meeting facility requirements, the conference facility space plan should be flexible in nature to host different events, with unique space needs, simultaneously. The layout should be classroom style, which is required by smaller meetings and seminars - the market the proposed facility is aimed at. In order to cover its function as a performing arts center, a theatre style room will be required which also can be used, if appropriately planned, for larger meetings and conferences (conventions). Banquet style rooms will be required for dining and special events such as receptions and other catering events.

3 NON-RESIDENT CONFERENCE CENTER SPECIFICATIONS

3.1 Average Facility Profile

Most Non-Resident conference centers use contracted services

- 75% for catering (food and beverages)
- 50% for housekeeping
- 25% for other, not specified services
- 25% for sales and marketing 25%
- 12.5% for front desk services

Table 4 shows the average management salaries in 2002 dollars

Table 4. Management Salaries	
Title	Salary
General Manager	\$69,361
Food and Beverage	\$49,750
Sales and Marketing	\$40,167
Conference Services	\$34,450

Source: International Association of Conference Centers

Most Non-Resident conference centers (75%) offer benefits to their employees. These benefits account for 36.5% of the payroll and include:

- Vacation
- Disability
- Dental
- Health

3.2 Demand Sources and Meeting Types

Demand for Non-Resident conference centers comes from the following market segment according to IACC research:

- Management Planning 42.0% of total demand
- Professional/Technical 20.6% of total demand
- Training/Education 15.4% of total demand
- Sales Meetings 4.2% of total demand
- Other Segments 17.8% of total demand

3.3 Conclusions

Since the conference center is proposed to be a stand-alone facility (with no attached hotel):

- It would lower the costs for the City significantly if a sponsor could be found who either pays all or part of the construction costs or receive naming rights in exchange.
- It should be located within walking distance to hotel accommodations as well as restaurants, entertainment and leisure facilities (Stores, Galleries, Bars)
- It should include a business center, high speed internet access and wireless LAN connection in order to compensate for its secluded location and to be able to better compete in the market
- It should be bigger in size than existing hotel meeting facilities in Sedona and surrounding communities to avoid competing with them and to be able to tap into new markets for Sedona. Therefore the matching market segment would be meetings and conventions with 200 to 500 attendees.
- Marketing strategies should incorporate the special and unique features of Sedona, the natural/environmental assets and the arts community. For the national/international market the Grand Canyon could be used as an anchor.
- Packages should be made available (“Sedona-Pass”) including close-by hotels, restaurants, day tours (Grand Canyon) and available public activity facilities (public golf course) to overcome the fact that the center is planned without a hotel
- Attempts should be made to have most of the culture/arts events outside of the peak season for conventions/conferences (November through May) to utilize the facility most effectively and to guarantee a year round revenue.

4 CONFERENCE FACILITY OPERATIONS

The operations model for the conference center is based on assumptions from the market study which indicate:

- The level of demand and pricing for events (by type)
- Industry research on operating costs
- Typical expenditures and their distribution by category for conference attendees

It is important to note that the operation of a center in Sedona is likely to differ from national and regional norms as it is a small labor market where there are few people with the relevant skill bases. Labor for key positions may need to be imported into the market.

A fundamental assumption is that this stand-alone conference center is not attached to any lodging accommodations.

This first table illustrates how much an attendee at such a facility spends by category and how long the event typically is (not including set up and tear down). The average daily expenditure as noted in a study for the International Association of Conference Centers (IACC) is \$67.81 (2003 dollars). The average conference attendance is 61 for corporate conferences and 90 for association events. Our sense is that this is a low average for Sedona events but we use this figure for analytical consistency. The proposed Sedona facility specified here, due to its size, would be able to target larger meetings of several hundred or more. Technically these might be classified as small conventions. Corporate conference duration is longer than association conferences at 3.2 to 2.2 on average. Ultimately, both spend about the same on a conference at a stand-alone center, \$13,000. This does not include dinners, special lunches or breakfasts, lodging or retail expenditures by attendees in the community.

Table 5. Averages Conference Expenditure, Size, Duration, & Expenditure Distribution						
		Corporate Conference	Association Conference	Corporate Conference	Association Conference	
Average Daily Expenditure	\$ 67.81	-	-	-	-	
Average Attendance	-	61	90	-	-	
Average Meeting Days	-	-	-	3.2	2.2	
Expenditure Distribution						
Category	Percent	Individual	Event Day	Event Day	Total Event	Total Event
Conference	8%	\$ 5.42	\$ 331	\$ 488	\$ 1,059	\$ 1,074
Lunch	17%	\$ 11.53	\$ 703	\$ 1,037	\$ 2,250	\$ 2,282
Coffee Breaks	20%	\$ 13.56	\$ 827	\$ 1,221	\$ 2,647	\$ 2,685
Meeting Room	44%	\$ 29.84	\$ 1,820	\$ 2,685	\$ 5,824	\$ 5,908
Audio Visual	4%	\$ 2.71	\$ 165	\$ 244	\$ 529	\$ 537
Other	7%	\$ 4.75	\$ 290	\$ 427	\$ 927	\$ 940
Total		\$ 67.81	\$ 4,136	\$ 6,103	\$ 13,237	\$ 13,426

It is our expectation that local Sedona groups will use this facility for meetings and for large social functions. We also expect that show promoters will occasionally use the facility for large

events that we term “consumer” events like art, antique, sportsman, or jewelry shows. Table 6 summarizes the projected total facility usage for the year.

Table 6. Projected Event Days by Event Category and Year						
Category	Event Days	Set-up	Total Days	Year 1	Year 2	Year 3
Corporate	3.2	2	5.2	130	234	338
Association	2.2	2	4.2	17	34	50
Consumer	2.5	1.5	4	12	20	32
Social	1	0	1	5	8	10
Meetings	1	0	1	52	77	104
Total				216	373	534

A few points to note about the table above:

- It indicates additional days for event set up and tear down for some types of events
- It usually takes about three years for a facility to ramp up to full utilization
- There will be some overlap in facility usage. In other words, the facility may host more than one event or meeting on a single day.

It is also useful to note how many people are associated with this level of event usage at the facility. This is shown in the table below to be 63,000 for the third, or stabilized, year. Of that total, the vast majority, 45,000, will come for consumer or social events. Over 15,000 will come for actual conferences. While that is fewer than consumer events, those 15,000 will spend more per capita than all of the others combined - both on-site and off-site. It is also important to note that this figure includes only the actual conference attendees and does not include spousal or family attendance, which in Arizona is typically above industry averages, as the destination is desirable.

Table 7. Total Attendance by Event Category and Year

Categories	Event Days	Attendees	Year 1	Year 2	Year 3
Corporate	3.2	61	4,880	8,784	12,688
Association	2.2	90	792	1,584	2,376
Consumer	2.5	2,000	15,000	25,000	40,000
Social	1	500	2,500	4,000	5,000
Meetings	1	30	1,560	2,310	3,120
Total			24,732	41,678	63,184

The tables that follow present our background assumptions for the operating pro forma that appears at the end of this section. The first sets of tables are revenue assumptions. Many of the assumptions underlying these tables are based on data from Table 5.

Following those tables is operating expense assumptions. The staffing expense table is the most important one as it will be the center's primary operating cost.

The great majority of the rental fee revenue, \$509,656 in year 3, comes from corporate meetings. This is the largest category of revenue and is summarized in Table 8.

Table 8. Projected Facility Rental Fees by Event Category and Year

Event Category	Events			Fees	Total Rental Fees		
	Year 1	Year 2	Year 3		Year 1	Year 2	Year 3
Corporate	25	45	65	\$ 5,824	\$ 145,602	\$ 262,083	\$ 378,564
Association	4	8	12	\$ 5,908	\$ 23,630	\$ 47,261	\$ 70,891
Consumer	3	5	8	\$ 5,000	\$ 15,000	\$ 25,000	\$ 40,000
Social	5	8	10	\$ 1,500	\$ 7,500	\$ 12,000	\$ 15,000
Meetings	52	77	104	\$ 50	\$ 2,600	\$ 3,850	\$ 5,200
Total					\$ 194,332	\$ 350,194	\$ 509,656

As with facility rental, the great majority of the food and beverage revenue, \$421,631 in year 3 comes from corporate meetings. Summarized in Table 9, this is the second largest category of revenue. This category only includes breakfast and lunches, not dinners.

Table 9. Center Provided Food & Beverage Expenditures by Event Category and Year

Event Category	Events			Spending	Total F& B Sales		
	Year 1	Year 2	Year 3		Year 1	Year 2	Year 3
Corporate	25	45	65	\$ 4,898	\$ 122,438	\$ 220,388	\$ 318,338
Association	4	8	12	\$ 4,968	\$ 19,871	\$ 39,742	\$ 59,613
Consumer	3	5	8	\$ 3,000	\$ 9,000	\$ 15,000	\$ 24,000
Social	5	8	10	\$ 1,500	\$ 7,500	\$ 12,000	\$ 15,000
Meetings	52	77	104	\$ 45	\$ 2,340	\$ 3,465	\$ 4,680
Total					\$ 161,149	\$ 290,595	\$ 421,631

Conference Services Expenditures, outlined in Table 10, are specific to conferences and includes all of the services and non-equipment needs provided for the conference operations by center staff.

Table 10. Conference Services Expenditures by Event Category and Year

Event Category	Events			Spending	Total Conference Services Sales		
	Year 1	Year 2	Year 3		Year 1	Year 2	Year 3
Corporate	80	144	208	\$ 1,059	\$ 84,714	\$ 152,485	\$ 220,256
Association	9	18	26	\$ 1,074	\$ 9,452	\$ 18,904	\$ 28,357
Total					\$ 94,166	\$ 171,389	\$ 248,612

The next category, summarized in Table 11, is equipment rental expenses. This primarily includes audio-visual and other presentation related equipment.

Table 11. Equipment Rental Expenditures by Event Category and Year

Event Category	Events				Total Equipment Rental Sales		
	Year 1	Year 2	Year 3	Fees	Year 1	Year 2	Year 3
Corporate	80	144	208	\$ 529	\$ 42,357	\$ 76,242	\$ 110,128
Association	9	18	26	\$ 537	\$ 4,726	\$ 9,452	\$ 14,178
Consumer	3	5	8	\$ 500	\$ 1,500	\$ 2,500	\$ 4,000
Social	5	8	10	\$ 250	\$ 1,250	\$ 2,000	\$ 2,500
Meetings	52	77	104	\$ 50	\$ 2,600	\$ 3,850	\$ 5,200
Total					\$ 52,433	\$ 94,044	\$ 136,006

The facility, as we are projecting in this report, does not provide a full service restaurant. We assume, however, that it does host events catered by a select group of caterers from whom the center will receive a 5% commission for the business and use of the prep kitchen. We expect one dinner event by the corporate and association groups will take place in the facility. Others will take place elsewhere in the community. Table 12 highlights the catering commission revenues.

Table 12. Catering Commissions by Event Category and Year

Event Category	Catering Expenditures	Gross Expenditure			Commission		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Corporate	\$ 46.64	\$ 227,603	\$ 409,686	\$ 591,768	\$ 11,380	\$ 20,484	\$ 29,588
Association	\$ 46.64	\$ 36,939	\$ 73,878	\$ 110,817	\$ 1,847	\$ 3,694	\$ 5,541
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Social	\$ 75.00	\$ 187,500	\$ 300,000	\$ 375,000	\$ 9,375	\$ 15,000	\$ 18,750
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		\$ 452,042	\$ 783,564	\$ 1,077,585	\$ 22,602	\$ 39,178	\$ 53,879

The last revenue category, shown in Table 13 below, sums up the entire incidental expenditures not included in the aforementioned categories.

Table 13. Other On-Site Expenditures by Event Sponsor by Category and Year

Event Category	Events			Fees	Sales		
	Year 1	Year 2	Year 3		Year 1	Year 2	Year 3
Corporate	80	144	208	\$ 927	\$ 74,124	\$ 133,424	\$ 192,724
Association	9	18	26	\$ 940	\$ 8,271	\$ 16,541	\$ 24,812
Consumer	3	5	8	\$ 250	\$ 750	\$ 1,250	\$ 2,000
Social	5	8	10	\$ 125	\$ 625	\$ 1,000	\$ 1,250
Meetings	52	77	104	\$ 25	\$ 1,300	\$ 1,925	\$ 2,600
Total					\$ 85,070	\$ 154,140	\$ 223,386

Table 14 shows our expectation for staffing costs at the facility. We do have some concern that this may be a high figure for this region but would rather err on the side of conservatism, as it is the largest single expense category. The benefit level is 36% of salary (as sourced from an International Association of Conference Centers study).

Table 14. Facility Staffing. Salary, and Benefits (Year 1)				
Position	Number	Salaries	Benefits	Total Salary & Benefits
Manager	1	\$ 69,361	\$ 25,317	\$ 94,678
Sales & Marketing	1	\$ 40,167	\$ 14,661	\$ 54,828
Conference Services	4	\$ 137,400	\$ 50,151	\$ 187,551
Maintenance	3	\$ 75,000	\$ 27,375	\$ 102,375
Admin	2	\$ 50,000	\$ 18,250	\$ 68,250
Total	11	\$ 371,928	\$ 135,754	\$ 507,682

By Year 3, with inflation, the total of salary and benefits would be \$538,600.

Other key expense assumptions are listed below for the third year of operation:

- Administrative \$31,837
- Marketing \$132,613
- Utilities \$33,949
- Maintenance \$198,919
- Replacement Reserves 5% of gross revenue
- F & B related labor 35% of F & B sales
- F & B related cost of goods sold 35% of F & B sales

The following set of assumptions is important with respect to the operation of the center:

- The center is professionally managed by experienced personal with specific prior success in “opening” a center
- The center is well marketed beginning at least two years prior to opening and that the level of marketing is maintained at a reasonable level of business after opening
- That the center is built to a level of quality and located according to the assumptions set forth in this study.

The operating statement on the following page incorporates all of the information from the preceding tables. The two years before opening are not shown. The expenses with no offsetting revenues in those years are typically about equal to the losses in the first two years of operations.

The operating statement shows ten years of operations with the center turning profitable on an operating basis in the third year when the operating profit is shown as \$282,463 on revenues of \$1,593,170. There are losses of \$415,722 and \$67,500 in the first two years.

Table 15. Proposed Operating Statement (EBITDA*) for A Stand-Alone Sedona Conference Center

Revenues	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Facility Rent	\$194,332	\$350,194	\$509,656	\$524,945	\$540,694	\$556,914	\$573,622	\$590,830	\$608,555	\$626,812
Food & Beverage	\$161,149	\$290,595	\$421,631	\$434,280	\$447,309	\$460,728	\$474,550	\$488,786	\$503,450	\$518,553
Conference Services	\$94,166	\$171,389	\$248,612	\$256,070	\$263,753	\$271,665	\$279,815	\$288,210	\$296,856	\$305,761
Equipment Rental	\$52,433	\$94,044	\$136,006	\$140,086	\$144,289	\$148,617	\$153,076	\$157,668	\$162,398	\$167,270
Commissions	\$22,602	\$39,178	\$53,879	\$55,496	\$57,160	\$58,875	\$60,642	\$62,461	\$64,335	\$66,265
Other	\$85,070	\$154,140	\$223,386	\$230,087	\$236,990	\$244,099	\$251,422	\$258,965	\$266,734	\$274,736
Total Gross Revenue	\$609,752	\$1,099,541	\$1,593,170	\$1,640,965	\$1,690,194	\$1,740,900	\$1,793,127	\$1,846,920	\$1,902,328	\$1,959,398
Operating Costs										
Salaries/Benefits - Facility	\$507,682	\$522,912	\$538,600	\$554,758	\$571,400	\$588,542	\$606,199	\$624,384	\$643,116	\$662,409
Food & Beverage Labor (35% of revenue)	\$56,402	\$101,708	\$147,571	\$151,998	\$156,558	\$161,255	\$166,092	\$171,075	\$176,207	\$181,494
Food & Beverage COGS (35% of revenue)	\$56,402	\$101,708	\$147,571	\$151,998	\$156,558	\$161,255	\$166,092	\$171,075	\$176,207	\$181,494
Administrative	\$30,000	\$30,900	\$31,827	\$32,782	\$33,765	\$34,778	\$35,822	\$36,896	\$38,003	\$39,143
Utilities	\$32,000	\$32,960	\$33,949	\$34,967	\$36,016	\$37,097	\$38,210	\$39,356	\$40,537	\$41,753
Maintenance	\$187,500	\$193,125	\$198,919	\$204,886	\$211,033	\$217,364	\$223,885	\$230,601	\$237,519	\$244,645
Replacement Reserves	\$30,488	\$54,977	\$79,658	\$82,048	\$84,510	\$87,045	\$89,656	\$92,346	\$95,116	\$97,970
Marketing	\$125,000	\$128,750	\$132,613	\$136,591	\$140,689	\$144,909	\$149,257	\$153,734	\$158,346	\$163,097
Total Operating Costs	\$1,025,473	\$1,167,041	\$1,310,707	\$1,350,028	\$1,390,529	\$1,432,245	\$1,475,212	\$1,519,469	\$1,565,053	\$1,612,004
Net Operating Income	-\$415,722	-\$67,500	\$282,463	\$290,937	\$299,665	\$308,655	\$317,914	\$327,452	\$337,275	\$347,394

Sources: PKF Consulting, International Association of Conference Centers (IACC), The Hospitality Research Group, International Association of Assembly Managers (IAAM), U.S. Bureau of Labor Statistics

* Earnings Before Interest, Taxes, Depreciation, and Amortization